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BUDGET SPEECH

DELIVERED BY

HONOURABLE D. C. ABBOTT

MINISTER OF FINANCE

MEMBER FOR ST. ANTOINE-WESTMOUNT

IN THE

HOUSE OF COMMONS

APRIL 6, 1954



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BUDGET SPEECH

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HON. D. C. ABBOTT
MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, TUESDAY, APRIL 6, 1954

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE
MINISTER OF FINANCE

Hon. Douglas Abbott (Minister of Finance)
moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, I think I must depart from my carefully prepared text to express my appreciation for the warmth of the greeting of my friends behind me.

This is my eighth year as Minister of Finance and my tenth budget speech. When I brought down by first budget the world had just emerged from a long and costly war. Looking back at it now I can say that the views I then expressed about our own affairs have been more than justified, but our international hopes have fallen far short of realization. We have had to cope with recurring threats to peace and security, and we have had to incur heavy costs, in co-operation with our friends and allies, in building up the defensive strength of the free world. Solid progress, however, has been made during 1953 and we can face the future with growing confidence.

The growing strength of the North Atlantic alliance has done much to reduce the dangers of armed aggression, but fundamental solutions are still denied us. A just settlement of these questions requires the free world to continue to improve its defensive position in order to negotiate from strength. We cannot yet afford to relax.

ECONOMIC TRENDS

In the economic sphere, 1953 has been a much better year. Industrial and agricultural production in almost all countries has continued to expand, and consumption has risen. Supplies of many products entering

into international trade are becoming more plentiful, and international markets more competitive. The recovery of Germany and Japan has contributed to this development. It is becoming increasingly evident that after many years of scarcity and inflation we are returning to more normal competitive conditions.

It is encouraging to note the further improvement which has taken place in trade and payments relations between the dollar and the non-dollar countries. The clearest indication of this is the substantial increase in the gold and dollar reserves of overseas countries. During 1953 the sterling area achieved a substantial overall surplus with the rest of the world. The central reserves held by the United Kingdom rose by \$670 million during 1953 and have continued to rise in the first quarter of 1954. As a result of these favourable developments the position of the sterling area has strengthened considerably. A substantial improvement in the overall balance of payments and exchange reserves has also been experienced by most European countries.

The progress of the United Kingdom toward freer trade is most significant. Large sectors of trade have been decontrolled; commodity markets have been re-opened; and important raw materials and foodstuffs have been placed under open general licence. As a result of these changes, United Kingdom importers are now free to purchase a large part of their basic requirements from the cheapest sources, including the dollar countries. Significant relaxations in trade and exchange controls have also been introduced by Germany, Belgium, Holland, South Africa and a number of other countries.

While this worthwhile progress towards freer trade and payments is a source of satisfaction it still falls far short of what is

needed. In many respects the balance of world trade, although very much improved, still lacks defence in depth. It cannot be otherwise as long as major currencies are inconvertible, and there continues to be a widespread use of restrictionism and discrimination.

Perhaps the most encouraging feature of recent developments in this field is the change in the attitude of many countries to their external financial problems. There is a growing impatience with the existing system of direct trade controls and discriminations and an increased awareness of the serious economic damage which results from the perpetuation of such policies. To a greater extent than at any time since the end of the war, overseas countries are showing a willingness to envisage basic changes in their trade policy in order to deal with their exchange problems in a fundamental way.

This attitude is most clearly expressed in the "collective approach" proposals formulated on the initiative of the United Kingdom at the commonwealth economic conference in December 1952. These proposals envisage the restoration of an effective system of multilateral trade, and the achievement of currency convertibility over the widest possible area through co-operative international action. In the course of my last budget I stated that Canada had participated fully in the development of the "collective approach" and would be willing to co-operate in any common efforts required to achieve these goals. Today, I am glad to report that real progress has been made over the past year in laying the foundations for the implementation of this constructive program.

In January, as the house knows, I attended the conference of commonwealth finance ministers in Sydney, Australia, which—by the way—I consider to be the most satisfactory conference of this kind since the end of the war. In reviewing developments since the December 1952 meeting, the conference agreed that the substantial improvements which had taken place confirmed the fundamental soundness of the policies and objectives which they had set for themselves. Without reservation all commonwealth countries joined in a clear re-affirmation of the "collective approach" proposals for currency convertibility and freer trade.

During the past year constructive developments have also taken place in other countries. For most of this period the United States has been in the process of re-examining its foreign economic policies. An important stage in this process was completed in January, when the United States commission on foreign economic policy issued its report. The recommendations of this commission—

better known as the Randall report—provide, in my view, a reasonably promising basis for action by the United States in a co-operative movement towards a sounder system of trade and payments.

Progress has also been made by international agencies with responsibilities in this field. The international monetary fund has made changes in its rules and practices to ensure that its resources can be used more effectively to support a major move to convertibility. In Europe the OEEC has undertaken a study to see how the European payments union can best be integrated into a broader payments system, and powerful new voices have recently been raised in western Europe in favour of an early move to convertibility and multilateral trade.

As part of this general move to strengthen the instruments of international economic co-operation, the contracting parties to the General Agreement on Tariffs and Trade have undertaken an important program of work for the coming year. GATT has made a most valuable contribution to the expansion of world trade, and we welcome the decision to undertake a general review of the agreement with a view to making it a more effective instrument. The session which is planned for next fall will also consider the prospects for new multilateral tariff negotiations. In the meantime, in order to safeguard the stability of present tariff arrangements, the existing agreements have been extended to the end of June, 1955.

From what I have said, it is clear that events are shaping up to make the coming year an important one for progress in international economic co-operation. The new and positive attitudes of many countries, their improved trade and payments position, and the substantial progress towards domestic economic stability have combined to create a more favourable climate for advance than at any time since the end of the war.

No single country can by itself ensure the success of an enterprise which must essentially be a collective, co-operative effort. At the same time, I think it fair to say that the policies and attitudes of the United States in this regard occupy a place of central importance. The United States has been one of the strongest exponents of policies directed towards the reduction of trade barriers and the expansion of international trade. The success that has been achieved in this field is in large part due to the steady encouragement and substantial assistance that the United States people and their government have given to the countries of the free world. Canada has welcomed these policies and has played its full part in this constructive enterprise.

Three weeks ago I attended the first meeting of the joint United States-Canada committee on trade and economic affairs where ministers of our two countries had an opportunity to examine economic problems of common concern. Consideration was given throughout the discussions to the need for action towards freer trade and payments on a broad front. It was agreed that few things would contribute more to the well-being and economic stability of the free nations of the world than a forward move in this direction, and it was recognized that enlightened economic policies on the part of both the United States and Canada would contribute materially to the achievement of a better trade and payments system throughout the free world. United States ministers warmly welcomed the evidence of a desire in many countries to take decisive steps towards the restoration of a broad area of convertibility. I came away from these meetings with a distinct impression that the United States administration is willing to do its part in making such a movement successful. To this end the United States administration has just placed before Congress a program designed to give effect to the main recommendations of the Randall commission. It is greatly to be hoped that the actions of the United States in the trade field will continue to provide effective leadership at this critical time.

Canada, as the third largest trading country, also has important responsibilities to fulfil in these co-operative efforts. At Sydney and at Washington I reaffirmed our willingness now, as in the past, to play an appropriate part in bringing about a freer world system of trade and payments.

Earlier in my remarks I referred to the fact that there has been a return to more normal competitive conditions in world markets. As might be expected, this development has brought with it growing protectionist pressures in many countries, including Canada. It should be clear that any retrograde step at this time would not only prejudice the achievements we have already made but would also jeopardize the prospects for real progress which are now at hand.

I come now to a review of economic developments in Canada during 1953 and the outlook for 1954. In 1953 the Canadian economy reached new peaks of production, employment and consumption. A year ago I based my budget on the expectation that the gross national product would increase by about 4 per cent; actually it increased about 5 per cent. Since population increased less rapidly than national product and since prices were stable, the average Canadian

worker and consumer had more dollars to spend and was able to obtain more goods for his dollars than in any year in our history.

The main factors responsible for the high level of production of 1953 were much the same as those of 1952 although the relative importance of some of them varied. Our very large defence program continued to give strong support to production and personal incomes, but this element has become a sustaining rather than an expansionist force. In each of the years 1951 and 1952 defence expenditures increased by about \$600 million, whereas in 1953 they were about the same as in 1952 and there will be not much change in 1954. This slowing down in the growth of defence expenditures no doubt contributed to the levelling off of production in some industries that became evident toward the end of 1953.

On the other hand, a very substantial increase in consumer expenditures, and an expanding program of private capital investment, were strong stimulating forces. Consumer expenditures, strengthened by the continued rise in real incomes, showed a particularly large increase, and were the most dynamic force in the upward movement of 1953.

New investment in plant, equipment and housing rose by 10 per cent. New housing showed the most striking increase, rising by about 30 per cent, and was responsible for almost two-thirds of the total increase in durable physical assets put in place in 1953. There was a considerable increase in construction in the sectors of trade and commerce and in institutional building, where investment had previously been postponed by government restrictions during the early defence build-up period. Capital expenditures in manufacturing declined slightly, but investment in mining and resource development continued to increase. There was a significant increase in business inventories during the first nine months of the year, concentrated largely in the manufacturing and retail groups. The decline in inventories during the final quarter, though it contributed to the levelling off of business activity, was basically a constructive adjustment.

Finally, 1953 was also another big year for Canada's external trade. Imports continued the upward trend which first became apparent in the latter part of 1952, and were 9 per cent greater than the previous year. Exports, on the other hand, while still at very high levels showed a decline of 4 per cent from the record established in 1952.

The substantial increase in demand for imports reflects in large part the high levels of investment and consumer spending which characterized the economy during 1953. It also reflects the improved supply situation in many countries and sharper competition in world markets. These factors also contributed to the small decline in Canadian exports, including such traditional export products as wheat, woodpulp and farm machinery.

A significant change took place in the direction of our export trade. Sales to the United States rose by over \$100 million, while the proportion of our exports going to the United Kingdom and other commonwealth markets declined, reversing the trend which had prevailed during 1952. On the other hand, there was some increase in the proportion of our imports coming from the United Kingdom.

The emergence of an import surplus on merchandise account was the main reason for the swing in Canada's balance of payments position from a current account surplus of \$157 million in 1952 to a deficit of some \$467 million in 1953.

Short-term capital movements during the past year showed a much smaller net outflow on balance than in 1952. At the same time there was an increased inflow of long-term capital associated with an expansion in direct investment in Canada and net sales of new Canadian issues abroad were again substantial. These capital movements produced a surplus on capital account roughly equivalent to the deficit on current account, and there was little net change in our foreign exchange reserves. The foreign exchange value of the Canadian dollar showed almost no net change during the year. It declined moderately from January to May, and then moved up slowly to the end of the year.

Coming now to the present position, the first thing to observe is that the real income of the Canadian people has been expanding at a rapid rate for a number of years. The fact that the economy in 1953 was able to achieve further gains of the magnitudes I have sketched suggests to me that we should not feel unduly concerned with a temporary slowing down of this rate of advance. Indeed, in the dynamic kind of economy we have in Canada an occasional hesitation in its forward movement may well be one of the consequences of the buoyant character of our economic growth.

Most of the elements which supported the growth in national product in 1953 are still present, and I believe that the forces of long-term expansion will soon reassert themselves. But some readjustments in production, in costs and in pricing policies are necessary, and are indeed going on.

There is no need for me to go into detail concerning the nature of the present economic situation. It is characterized by more unemployment than we had last year at this same time, and by more unemployment than any of us like to see. It is marked also by a slackening in the growth of production and by declines in certain industries.

An explanation of this state of affairs in Canada can be found in a series of changes which have been at work during the last year or more, both in the international economic field and here in Canada. These changes have given rise to a greater degree of import and export competition, and to a more cautious attitude on the part of industry. These factors have led some industries to reduce their rates of production, or of inventory accumulation. I may note, in passing, that the main explanation for the recession in business in the United States given in the President's report to Congress was a change from inventory accumulation to inventory reduction. Added to this there has been a small decline in net farm income resulting from a reduced volume of agricultural production, and lower farm prices. We have also experienced a small decline in exports. Although the effect of these declines in farm income and in exports should be measured against the very high levels achieved in the previous year if we are to keep things in proper perspective, the fact remains that they in turn have tended to limit the demand of the producers affected for the products of the other sectors of the economy.

The increase in imports, especially of those kinds of things that we make in Canada in reasonable volume, and the decline in our exports, small though these changes may be, inevitably raise the question of our efficiency and of our cost and price structure. I do not agree with the suggestion occasionally heard that Canada has become a high cost economy. That may be true of some few sectors, but it is not true of our basic industries. But it is true that for seven or eight years business has been travelling along a comparatively easy road. After the war we had an unscarred and greatly expanded economy. We had learned a lot and made great technical advances. In a world beset with shortages and great tasks of reconstruction we have been admirably situated to supply both our own needs and the needs of our customers. Many countries have now recovered their productive capacities; they can meet a larger part of their own needs and they have more for export. Competition both for our market and theirs has become keener.

Until quite recently our industries have been protected more by external shortages than by our traditional tariff structure. This

special form of protection is now disappearing, and some of our industries are finding that they have not watched their costs as carefully as they should, that their break-even points are uncomfortably high, and that their costs and prices are out of line. One result of all this is that I have had more requests for tariff increases or other forms of protection during the past few months than in any year since I became Minister of Finance. This government, as the house knows, has steadily favoured reducing obstacles to trade, and we must move in this direction if we expect others to do likewise. If we were to meet every breath of new competition by increased protection we would certainly become a high cost economy and progressively aggravate our problems.

The re-emergence of keen competition in trade means readjustment and reappraisal. It means a sharpening of pencils and a careful re-examination of managerial and labour efficiency. This is not an easy process, but it is a very necessary one, and the longer it is postponed the more difficult it becomes.

I do not believe that the current slowing down of expansion will be serious or prolonged. Inventory accumulation is a volatile factor in an economy as dynamic as ours but if we bear in mind that the total of demand both at home and abroad is being well sustained, the present situation should be quickly self-correcting.

My reasons for saying this are, first, that the support to be given to production in 1954 in the principal areas where demand originates is well assured. This statement holds good whether we look at the intentions of Canadian business with respect to new investment, or at the probable expenditures of Canadians as consumers or builders of new houses, or at the rate of government expenditures, or at the prospects for exports. The second reason is that we already have a series of supports which should prevent the present re-adjustments from becoming more generalized and self-aggravating.

It is clear that industry as a whole has such confidence in the future of the economy that it intends to undertake greater capital investment than ever before. The annual survey of investment intentions recently tabled by my colleague, the Minister of Trade and Commerce (Mr. Howe), shows that 1954 will see nearly \$6 billion spent on new investment, or three per cent more than in 1953. Though some industries will spend less on new investment in 1954, other industries, especially the public utilities, mining, and commercial establishments will spend more, and more than enough to maintain the extraordinarily high levels reached in recent years.

Housing requirements remain substantial and the recent changes in the housing act should help to translate these needs into results.

The expenditures of the federal government on goods and services, as well as those of provincial and municipal governments, will increase moderately this year. Given the present high level of personal incomes, and the high volume of available personal savings, there is a strong basis for maintaining or increasing consumer expenditures during 1954.

So far as exports are concerned, the outlook is a little less certain. In the last few years unusually high sales of wheat and coarse grains have contributed to increase our exports. But by normal standards, the prospects for grain sales remain good. For other export commodities no significant changes seem likely, though much will depend on markets in the United States. So far as our European and commonwealth markets are concerned, the basic economic position of these countries has improved and an increase over the export levels of 1953 is a reasonable expectation.

As in so many other questions affecting our development much will depend on the economic situation in the United States. This is, of course, the open season for forecasting the behaviour of the United States economy, but I do not propose to join in this particular exercise. I shall merely note that responsible opinion in the United States seems to be confident that the present downturn will not be deep or prolonged, and that there is a growing consensus of view that an upturn can be expected soon.

In the light of all these considerations, I do not feel that drastic measures by government are appropriate to the present economic situation. As I have said on many previous occasions, there are bound to be both ups and downs in an economy enjoying an unusually high rate of growth. Our present adjustments are taking place at a level of activity which is higher than anything we have been accustomed to in the past. Governmental intervention or expenditure is not a cure for the problem of those industries where supply has temporarily outrun demand, at home or abroad, or where costs and prices have got out of line. The basic solution in these industries must be to produce more efficiently, to eliminate waste, to reduce costs and to search out new markets, with new or better products. In many instances I know that these processes are already under way.

There is, of course, a good deal that can be done by government by measures which have the effect of sustaining demand and production. The government's projected capital

expenditure program for the coming year, as indicated in the estimates, takes into account the higher priority which is now being given to federal projects. Even in this field, however, the present plans of industry to embark upon new capital construction, and the expected high level in housing activity, leave little room for any greatly expanded program on federal account. And I do not believe, in any case, that increased public works of the kind appropriate for the federal government can remedy a problem which is to a large extent local in character.

The amount of transfer payments made by the federal government has grown considerably in recent years and provides an underpinning of consumer expenditures. Some of these payments, such as unemployment benefits, necessarily increase when earnings fall off and thus support the level of expenditures. Most of these transfer payments, such as old age pensions and family allowances, are made to groups who spend nearly all their incomes on goods and services. In agriculture and fisheries, price support legislation has been in operation since the end of the war, to put a floor under the incomes of primary producers when economic stability is seriously threatened.

My general conclusion is that our national product in 1954 will be at least equal to 1953, and probably higher; in other words I think that an upswing in the second half of the year will more than compensate for the declines that are evident in certain branches of industry at present.

GOVERNMENT ACCOUNTS 1953-54

I should like now to report briefly on our revenues and expenditures for the fiscal year which ended last Wednesday. The usual detailed statements of the accounts are in the white paper which I tabled yesterday and I do not propose to take time in covering this ground again. However, I should remind hon. members that the final results of the year's operations will not be known for some time yet. Consequently the figures in the white paper and those which I shall use tonight are based on estimates and must be regarded as preliminary.

In my budget speech last February, I estimated budgetary revenues for 1953-54 at \$4,473 million, expenditures at \$4,462 million and our prospective surplus at \$11 million. It appears now that our actual revenues for the year were about \$4,400 million, our expenditures about \$4,390 million and our budget surplus about \$10 million.

Despite the tax reductions announced in the last year's budget, revenues in 1953-54 were the largest on record. The total of

\$4,400 million is \$73 million, or about 1½ per cent less than I forecast a year ago, but about \$40 million more than we collected in the preceding year. Personal and corporate income tax and excise duty collections have been short of my budget forecast, but customs, sales and excise taxes and non-tax receipts have all exceeded my earlier expectations. Of the total revenues for the year, personal and corporate income taxes, succession duties and other direct taxes produced 56 per cent, commodity and other indirect taxes 35 per cent, and non-tax revenues 9 per cent.

The expenditures last year, at \$4,390 million, were \$72 million or 1½ per cent less than my budget forecast, but about \$53 million more than the total spent in 1952-53. Again the most notable feature of our expenditure program has been the continued importance of defence which constituted over 43 per cent of all government outlay in 1953-54. Full details are given in the white paper, and I shall only point out that, apart from defence, our total budgetary expenditures in round figures amounted to \$2½ billion. Of this sum nearly \$500 million was for interest and service of the public debt; \$750 million—in addition to \$340 million paid out of the old age security fund—was for family allowances, veterans' benefits and other welfare and social security services; about \$340 million for subsidies and tax rental payments to the provinces; and \$110 million for services and assistance to agriculture. In other words, these four classes of expenditure accounted for more than two-thirds of all our civil or non-defence expenditures.

I should like to say something about our cash position and those aspects of our financial operations which lie outside the budget. Once again, in addition to our outlay for governmental services which are included in the budget proper, we have had to provide large sums for loans, investments and working capital advances and for a variety of other purposes. During the fiscal year, these outlays, all of which of course were authorized by parliament, amounted to \$430 million. To meet these requirements we have had available from non-budgetary sources the very large sum of \$810 million, of which \$445 million came from the repayment of loans and advances and \$200 million from net receipts and interest accumulations in various annuity, insurance and pension accounts. Details of all these transactions are given on page 62 of the white paper.

After taking into account our budgetary surplus of \$10 million and the net amount of \$380 million remaining from all these non-budgetary transactions, \$390 million was available for debt reduction. Actually, funded debt in the hands of the public was reduced during the year by about \$270 million, and our cash balances at the end of the year were \$120 million higher than they were at the beginning.

The public debt operations during the past year have included the redemption or refinancing of a large volume of matured or called bond issues. In addition to the usual refunding or conversion of short term securities, we issued new securities amounting in round figures to \$3,150 million and redeemed old securities and acquired others for our sinking fund and securities investment accounts in the amount of \$3,420 million. As a result, as I indicated a moment ago, we were able to reduce our unmatured funded debt outstanding in the hands of the public by \$270 million.

The average rate of interest paid by the government on its funded debt was slightly higher at the year-end than it was at the beginning. Two years ago the rate was 2.67 per cent and last year it was 2.77 per cent. At March 31, 1954 it was 2.86 per cent.

TAX POLICIES FOR 1954-55

I turn now to a consideration of a tax policy appropriate to the coming year.

Our present tax structure under prosperous conditions, without inflation, and allowing for a normal growth factor, would produce revenues of about \$4,500 million this year. Present indications, in my opinion, point to an early resumption of an upward trend in business, and a good prospect of this figure being realized. It is, of course, possible that external factors might be such that the present pause in our expansion would continue through most of the year, and if that happened our revenue would be lower. I feel fully justified, however, in basing my tax policy on a liberal rather than a conservative estimate of the future. I propose, therefore, to take \$4,500 million as my revenue base; and if I may have unanimous consent I shall insert at this point in *Hansard* a table giving the details which make up this total.

Table I
Revenues Before Tax Changes
(in millions of dollars)

	1953-54 (Preliminary)
Personal income tax	\$1,235
Non-resident income tax	55
Corporation income tax	1,200
Succession duties	40
Customs import duties	415
Sales tax	610
Other excise duties and taxes	540
Miscellaneous taxes	15
Total tax revenues	4,110
Non-tax revenues	340
Special receipts and credits	50
Total revenues	4,500
Old Age Security Taxes	
2 per cent sales tax	153
2 per cent personal income tax ..	97
2 per cent corporation income tax ..	56
Total	306
	148
	91
	55
	294

The main estimates of expenditure have already been tabled and total \$4,492 million. With the co-operation of my colleagues and the treasury board staff, I have been following each year a policy of steadily improving the quality and the completeness of the main estimates, and I believe that this year they are as complete as it is possible to make them. There will, of course, be some supplementaries, but I can foresee no large items overhanging us, such as we had last year in the losses related to foot-and-mouth disease and in the costs of the general salary increase for the public service, which together totalled nearly \$100 million. Each of the more than 500 items which make up the total estimates are individual maximum authorizations, and there is bound to be a certain amount of under-spending and lapsing. The original estimates have been carefully screened and the lapsings will not be large, but they can hardly average less than 1 or 2 per cent. All in all, I have come to the conclusion that a prudent estimate of our total budgetary expenditures is \$4,460 million.

My general philosophy with respect to taxation has always been that in good, prosperous years we should balance the budget with a bit over for the reduction of debt. When we have had exceptional years, and especially under conditions of inflationary pressures, I have never apologized for having a substantial surplus for debt reduction. I am also convinced that whatever merit there may be in large scale deficit financing under severe conditions, those conditions neither exist nor are they in prospect. On the other hand, I do not think one should be unduly cautious and refuse to consider desirable tax reductions just because conditions might deteriorate and we might have a small deficit.

Taking, therefore, \$4,500 million as my revenue base, and \$4,460 million as my expenditures, I have a modest sum of about \$40 million available for tax abatement.

Beyond the budget we shall, as usual have to find cash to make authorized loans, advances and investments. We shall probably require about \$125 million for loans to Central Mortgage and Housing Corporation. The Canadian National Railways capital requirements in 1954, which are initially financed by advances from the government, will come to about \$190 million. Funds will be needed for other crown corporations and for loans under veterans' legislation and other authorized purposes. There are likely to be net disbursements from the defence equipment replacement account, and it would appear that the revenues of the old age security fund will again fall short of payments. To finance all these requirements, there will be cash available from non-budgetary sources—mainly from the repayment of loans and advances and from the various insurance, pension and annuity accounts which the government holds and administers. It is not possible to forecast these non-budgetary items accurately, but I expect that, excluding funded debt operations and the requirements of the C.N.R., there will probably be a small net balance in our favour.

Another matter that I am required to report upon to parliament is the position of the old age security fund. I have included this report in the white paper at pages 67 and 68. Hon. members will recall that payments under the Old Age Security Act began in January, 1952, but contributions to the fund became payable at different dates—the 2 per cent sales tax in January of that year, but the 2 per cent personal and corporate income taxes not until July, 1952. There was therefore a long lag between payments out of and payments in to the fund. This lag created a deficit in the fund of \$50 million in the first three months of 1952, and contributed largely to the deficit of \$99.5 million in the year ended March 31, 1953. Recognizing this lag, parliament in 1952 appropriated funds from general revenue to extinguish the first three months' deficit.

Last year I reported to parliament that because of the continuing effects of the initial time lag I would have to wait another year before I could form a proper judgment on the real balance of income and outgo in the old age security fund. At that time I had expected revenues of \$278 million, payments of \$345 million, and a probable shortfall of \$67 million. In fact the results have been much better. Payments were \$6 million

less than I had forecast, revenues \$16 million higher, and the deficit at \$45 million is one-third less than expected.

Looking at the year just beginning, it seems probable that we shall again have a deficit of about \$50 million. A precise accounting approach might suggest that I ought to propose an increase in the scale of contributions; but, as I said a few minutes ago, I do not think this is a time to be increasing taxes in Canada if that can possibly be avoided. I propose therefore to carry on with the same scale of contributions for another year.

Under the Old Age Security Act, deficits in the fund are met by temporary loans from the Minister of Finance and these loans are carried as active assets on our balance sheet. The \$99.5 million deficit of 1952-53 resulted in large measure from the original time lag between the commencement of payments and contributions. I do not believe any useful purpose is served by carrying this liability of the fund forward into another year, and I propose, with the consent of parliament to write it off against our accumulated active asset reserve.

FEDERAL-PROVINCIAL FINANCIAL RELATIONS

Before completing this statement of tax policy for the ensuing year, I must make some reference to the general field of federal-provincial financial relations by reason of the fact that the province of Quebec has decided to impose again a personal income tax.

The right of any province to impose such a tax has never been questioned. The preamble to the recent Quebec statute imposing the tax contains a statement, however, which cannot be allowed to pass unchallenged. That preamble contains the following words:

Whereas the Canadian constitution concedes to provinces priority in the field of direct taxation:

There is no foundation in fact or in law for such a statement. The provisions of the B.N.A. Act in this regard are clear and unambiguous. Federal taxing power is unlimited. Provinces are limited to direct taxation within the province for provincial purposes. No priority is stated and none is implied. On the contrary, both levels of government have equal and concurrent rights in the field of direct taxation.

Within their powers of direct taxation, provincial governments have imposed general retail sales taxes, taxes in respect of particular commodities such as gasoline, tobacco and liquor, security transfer taxes, and so on. In fact, with the exception of customs duties, I know of no important source of revenue used by the federal government which has

not also been available to provincial governments. Presumably all provincial taxes are direct taxes. If provincial priority in the field of direct taxation is admitted, it follows that they have priority in the case of all the taxes which they levy, including these sales taxes and commodity taxes of all kinds.

Under such a doctrine, the provinces would have the right to demand that the federal government, in effect, abandon taxes up to the extent of provincial use. The federal government would be bound to accommodate fully whatever level of direct taxes the provinces wished to impose, and federal taxes would have to be abated to the extent called for by provincial authorities.

There is, of course, nothing whatsoever in our constitution to support such a doctrine of provincial priority, and no federal state could survive as a nation under such an arrangement.

So far as personal income tax is concerned, the federal government entered this field in 1917 and has remained in it continuously since that time. Today, the personal income tax is one of the main pillars of the federal revenue system.

My own province of Quebec did not enter the personal income tax field until 1940 with a tax applicable to the year 1939. It was then abandoned at the end of the following year when wartime tax agreements were entered into. Thus for only two years out of the eighty-seven years since confederation has the province of Quebec attempted to exercise its right to levy such a tax.

This Quebec income tax was imposed as a flat percentage of the federal tax currently in force at that time. As such, it carried the same level of exemptions and, accordingly, was payable by the same people as were subject to the federal tax. The Quebec tax was in addition to the federal tax. No taxpayer was allowed to reduce his federal tax by the amount paid under the provincial law. They were two parallel taxes on the same income payable to two governments.

The present Quebec income tax law does not follow this pattern. It levies the tax under a separate rate structure, provides for different exemption limits and deductions and imposes a tax upon some only of the persons liable for federal income tax. On those to whom the Quebec tax does apply, my understanding is that the rates work out at about 15 per cent of the federal rates.

Since 1947 the federal law has contained a provision allowing taxpayers to offset up to five per cent of their federal tax through payment of a provincial income tax. Gener-

ally speaking, the credit in the federal law in respect of succession duties, corporation income taxes and personal income taxes levied by provinces gives leeway approximating the previous level of use of these taxes by provincial governments prior to the war. It was introduced as a measure to accord some degree of relief to taxpayers taxed at the same time by two governments. It was entirely a unilateral concession which called for no comparable concession of any sort by a province. So far as I am aware, this type of tax concession is unique and is found in no other federal tax system.

For instance, in the United States of America, in addition to the federal income tax some thirty different states levy personal income taxes. These state taxes are at varying levels. In New York state, for example, a married person with no dependents with an income of \$5,000 a year pays \$45 to the state of New York, and \$660 to the federal government. It may be of interest to observe that a taxpayer in Quebec with the same income and marital status will pay a provincial tax of \$49 but has the right to a credit of \$28.50 against his federal tax, a privilege not enjoyed by his fellow sufferer in the state of New York. In the neighbouring state of Pennsylvania no state personal income tax is imposed. Accordingly, a resident of Pennsylvania pays less income tax than does the resident of New York. The weight of combined federal and state taxes will vary with the different states. Perhaps it is of the essence of state or provincial autonomy that their tax levels may differ. It is this very right to be different that is so jealously guarded. The idea that there is anywhere a recognized principle that in a federal state the combined taxes levied by all governments should be no greater in one part of the country than in another is without foundation.

The principle underlying the suggestion that provincial tax should generally be allowed as an offset against federal tax strikes at the very root of the system of federal-provincial tax agreements which have been developed in this country. It might be useful, therefore, to outline what it has been sought to accomplish by these agreements.

Prior to 1940, seven of the then nine provinces, as well as many municipalities, were levying personal income taxes. Today there are only two personal income taxes in force—the federal and that of the province of Quebec. Prior to 1940, seven of the provinces imposed taxes on the profits of corporations at varying rates. All provinces imposed a complicated series of miscellaneous corporation taxes. Today there are only two

corporation income taxes—the federal and Quebec—while Quebec also resorts to a series of other miscellaneous corporation taxes. Previously all the provinces levied succession duties. Today succession duties are imposed by only the federal government, Ontario and Quebec. The heavy costs incidental to the mere collection of taxes from Canadians as a whole have been greatly reduced. In this respect the federal-provincial agreements have been of the greatest benefit to the provinces, to the federal government and to the whole body of Canadian taxpayers.

While the complete removal of double taxation over so wide a field with the benefits of simplification and efficiency is important, it is probable that the most significant and fundamental feature of the agreements is the way in which they have provided financial stability for the less well-off provinces. The house will recall that in the later thirties a number of provincial governments were in dire financial straits, and were facing the necessity of curtailing essential services to an extent which would have imposed great strains on our federal structure. The situation was very serious. The federal-provincial agreements have provided, through the avenue of friendly discussion, a system under which reasonable and stable revenues are currently being provided to those provinces whose fiscal needs call for more revenue than they could be expected to collect by their own methods. These agreements have helped to enable these provinces to maintain minimum national standards of provincial services.

The third main purpose of the agreements has been to enable the federal government, with the co-operation of provincial governments, to carry out fiscal and other national policies which help to maintain high levels of employment and production in Canada.

Summing up the value of this system of federal-provincial agreements, perhaps I might be allowed to quote one paragraph from a statement which I made to the federal-provincial conference in 1950:

I have said that some credit is due to everyone seated at this table for the remarkable progress towards a sane tax system which has been made in recent years. The provinces which have been willing to rent to the federal government their important rights in the fields of income and corporation taxes and succession duties have contributed greatly to this desirable result. Under the agreements, literally hundreds of taxes of one sort or another have been suspended and replaced by a relatively few. Meantime, these provinces have received in remuneration rental payments, steadily rising with the increase in national income and provincial population and of a magnitude greater, I believe, than could have been obtained by the direct provincial cultivation of the tax fields in question—at least unless the intensity of cultiva-

tion had been pushed to a point which would scarcely have been tolerable under today's conditions. Thus at one stroke a great many old and diverse levies have been suspended while reasonable returns through payments from the federal government have been assured by the agreements. To my mind, this is the essence of effective tax administration.

This Canadian plan of tax rental agreements as a method or device for dealing with the financial problems of the members of the federal state has been developed on a practical basis. Following the rejection of the Rowell-Sirois recommendations, the federal government proposed the wartime tax agreements under which all provinces for the duration of the war, in consideration of certain rental payments, suspended their income and corporation taxes.

After the war the same old problem presented itself again and at the 1945 federal-provincial conference, the federal government put forward a comprehensive plan as a substitute for the wartime agreements. This plan was found to be not acceptable to all provinces.

Again the federal government, without the benefit of any workable alternative proposals from the provinces, had to devise some practicable solution to meet the post-war situation. The tax rental agreements were the result and their great virtue is that in achieving important objectives they do not depend upon unanimous acceptance by all provinces.

Prior to the termination of the first series of agreements which had been entered into by seven provinces, a federal-provincial conference was called in 1950 to discuss with all the provinces the prospects for the renewal of the agreements and any suggestions for modification in their terms. Again there were no proposals put forward for any alternative comprehensive method of solving the overall problem of conflicting tax jurisdictions in Canada.

The various options offered under the present agreements have been developed in a genuine attempt to meet the diverse financial needs of provinces which, unfortunately, are not all equally endowed with natural advantages. Naturally provincial governments will continue to argue that the agreements should provide higher rental payments, but by and large the terms are tolerably acceptable to all.

The province of Quebec alone has decided not to rent its income and corporation tax fields to the federal government. I wish to make it perfectly clear as I have on other occasions that the federal government has not urged the province to enter into such an

agreement and has no quarrel with the decision taken by the government of that province to use its own tax fields rather than to rent them to the federal government.

The statute imposing the new personal income tax in Quebec was adopted without any prior consultation with the federal government. I do not suggest, of course, that such consultation was necessary, but the tax was imposed with full knowledge of the extent of the tax credit available under the federal law since 1947, which is limited to 5 per cent of the federal tax.

It is now suggested that the federal government should allow taxpayers in Quebec to reduce the income tax otherwise payable by them to the federal treasury by the full amount they are required to pay to the province. I have given this suggestion the most careful and serious consideration. Clearly, however, the obvious implication of the principle involved in this proposal is that this parliament should recognize that any province has the right to determine the amount by which the people of that province may reduce their national tax liability. I consider that any such principle is completely unacceptable.

If a credit up to 15 per cent of the federal tax were accepted, it would appear to be difficult in principle to later deny full credit for, say, a 30 per cent, a 60 per cent or even a 100 per cent provincial tax. If a province had the suggested constitutional priority in the field of direct taxation, then nothing short of the right to reduce federal tax by 100 per cent would be the stopping point. This would imply that a provincial government without imposing any additional burden on its own taxpayers could secure to its own treasury the full amount which would otherwise be payable by its people to their national government. This would be the obvious consequence of allowing a province to determine the degree of offset against federal tax to accommodate its own tax. I can here only repeat what I said earlier on this point. There is no justification under our constitution for such doctrine. Its acceptance would not only place the federal treasury in an intolerable position but it would completely destroy any basis for federal-provincial tax rental agreements. While this, of course, might not be a matter of serious concern to the wealthy provinces, it can scarcely be disregarded by others.

I have indicated the efforts made by the federal government since 1945 to find a basis for fiscal co-operation which would be fair to all the provincial governments, would fully respect provincial autonomy, and at the same time enable the government of the nation to

discharge its obligations to all the citizens of Canada in all the provinces. The tax rental agreements represent the best solution it has so far been possible to find.

It is obviously impossible to conduct inter-governmental discussions through press conferences and public statements, but if the premier of Quebec wishes to follow up his frequently expressed desire for co-operation and collaboration, and will make concrete proposals to the federal government which respect the rights of both federal and provincial authorities under the constitution, which would be fair to all ten provinces and leave the federal government in a position to discharge its national obligations, he will always find the door open for full and frank discussion in the hope of finding a mutually satisfactory solution.

Finally, perhaps I should say a word about what appears to be the attitude of the Conservative opposition on this subject as evidenced by the resolution recently adopted by the Progressive Conservative association. The resolution is reported in the press as follows:

"The Conservative party advocates the principle that any provincial income tax levied by the government of any province be deductible from income tax payable to the federal government by any taxpayer of such province, provided the amount of such taxation does not exceed the amount that such province would have received from the federal government if such a tax agreement had been negotiated."

This resolution clearly does not support the doctrine of provincial priority in the field of direct taxation asserted in the Quebec statute. Rather it is a general proposition that stems from the tax rental agreements. It appears to propose that any province which does not rent its tax fields should be accommodated indirectly from the federal treasury up to the amount of rent it would have received if it had rented its tax fields. I must confess I find that principle somewhat bewildering, but it would appear to be as effectively destructive of any basis for federal-provincial tax rental agreements as the priority doctrine to which I have alluded. However, if I have misunderstood the purport of the resolution, I am sure hon. gentlemen opposite will clarify the matter during the course of this debate.

TAX CHANGES

May I now place before the house my proposals for tax changes. As I said earlier, there is not much margin for tax reductions, and I have had to consider carefully how I can get the most equity and the best economic results with the resources at my disposal.

Clearly it is not possible to make any general reduction in the income tax rate structure, either for individuals or for corporations. The most I can do in this field is to make a

few desirable adjustments. None of them will have any significant effects on revenue.

The incentive legislation for the oil, gas and mining industries will be extended for a further year. In the case of deep-test wells, however, this special concession will in future be restricted to more complicated structures such as occur in the foothills. An amendment will be introduced to re-establish past policy with respect to the tax status of fire and casualty mutual insurance companies. It is proposed to withdraw the provision in the income tax regulations which limits the deductions for capital costs to the amount taken on the taxpayers' books of account. The maximum deduction allowed for contributions to pension funds will be increased from \$900 to \$1,500 for both employers and employees.

These are the main changes involving questions of principle, though the amending bill will as usual contain a number of technical changes to keep the law up-to-date and as fair as possible.

Succession Duties

Our succession duty law is in need of revision. Within the past few years a great deal of progress has been made in improving our federal tax laws. It is generally agreed, I think, that an excellent job has been done through rewriting our Income Tax Act. The Excise Tax Act has been streamlined, simplified and made more systematic. Up until now I have not been able to devote enough time to a similar improvement in succession duties. However, I have recently asked officials of the three departments concerned—finance, national revenue and justice—to commence work on rewriting the law.

In the next few months, while the redrafting is proceeding, the views of informed and interested persons, or groups of persons, would be welcomed on any provision in the law which deserves reconsideration. In the meantime no change will be made in the present law.

Customs Tariff

The budget resolutions relating to the customs tariff which I am tabling touch 74 tariff items. I am proposing changes in wording in about fifty of these items which would remove uncertainties, anomalies, and administrative difficulties which have arisen. The other changes all involve reduction or suspension of duties. No increases in duty are proposed.

The duty is being eliminated on machinery and apparatus, including tubing of a class of kind not made in Canada, for the opera-

tion of potash and rock salt mines. A former drawback item is being re-established to provide for a drawback of 99 per cent of the duty paid on fire clay fire brick used by basic producers of iron or steel. Duty free entry is provided for materials and parts used in the construction and repair of railway signal systems. The duties on motor rail cars or units are suspended until July 1, 1956, and on uranium until July 1, 1958.

Some of the principal items on which the tariff has been substantially reduced include automatic controls for certain sterilizing processes, tear gas ammunition for use by law enforcement authorities, and impregnated jute fabric used by nurserymen. Motor vehicles imported as settlers' effects are presently exempt from duty and taxes when valued at not more than \$1,500 but duty and taxes apply on any value in excess of that amount. This exemption has been increased to \$2,500.

A new tariff item has been established to provide for duty free entry of personal gifts not exceeding twenty-five dollars in value sent from members of the Canadian forces serving abroad to relatives or friends in Canada. This item continues the exemption provided for by order in council P.C. 6598 of December 6, 1951. Last year we provided duty free entry for goods valued at not more than \$1,000 imported by members of the Canadian forces after an absence from Canada of not less than a year. I now propose to abolish this \$1,000 limit, and to provide statutory authority for the long established practice of extending the same privilege to employees of the Canadian government returning from foreign postings.

While each of these tariff reductions will be of real benefit to the producers or individuals affected, their overall revenue implications are not significant.

Commodity Taxes

I have decided, both for reasons of equity and economic effects, that the bulk of the available tax abatement should be in the commodity tax field. I do not propose any change in the general sales tax rate, but I can recommend some useful changes with regard to the 15 per cent special excise tax. I regret that I am not able to recommend any change in the taxes on automobiles, television sets, radios, phonographs and

cigars. The revenue from this group is quite substantial and is more than I can forego at this time; and consumer demand for these products has been well maintained. Furthermore, in respect of radios and television sets, last year parliament withdrew the radio receiving licence fee, and directed that in its place the 15 per cent excise on sets should be assigned as revenue to the Canadian Broadcasting Corporation. I think it would be inappropriate to recommend any change in this tax for the time being.

I can, however, recommend a reduction from 15 per cent to 10 per cent on such items as soft drinks, candy, cosmetics, tires and tubes, motorcycles, smokers' accessories, matches, coin operated amusement devices, fountain pens, clocks, watches and jewellery.

I can also recommend that the 15 per cent special excise tax be removed completely from furs; electrical household appliances such as vacuum cleaners, floor polishers, irons and ironers, coffee makers, toasters and food mixers; firearms, golf clubs, fishing equipment; cameras and films; merchandise vending machines; and luggage.

The revenue loss involved in rate reduction from 15 per cent to 10 per cent for the one group, and in the complete exemption of the other, will amount to approximately \$33 million.

While the sales tax rate will remain unchanged, I am recommending the addition of certain items to the schedule of exemptions. It is proposed to include in the exempt list certain classes of road machinery and fire fighting equipment when purchased for their own use by municipalities. Wall panels will be added to the list of exempt building materials. Miscellaneous items include the small sizes of drain tile, sheet music and hearing aids. Total revenue loss under all these sales tax changes will be about \$3 million.

Taxes in the field of liquor and tobacco products will continue at their present levels. A technical change will be made in the method of taxing beer. The present tax on malt used in making beer will be replaced by a gallonage tax. The purpose of the change is to introduce a more modern method of taxation without affecting substantially the general level of taxation in the industry.

All customs and commodity tax changes will be effective tomorrow, April 7. My colleague the Minister of National Revenue (Mr.

McCann) has asked me to give notice that in accordance with standard practice no claims for refunds arising out of tax reductions in respect of goods on which tax has been paid will be entertained.

CONCLUSION

I can now summarize my revenue and expenditure estimates for the coming year. The reductions in taxation which I have announced will mean a loss of revenue of about \$36 million, and that reduces my revenue figures from \$4,500 million to \$4,464 million. Since I have estimated my expenditures at \$4,460 million, I am budgeting for a surplus in the nominal amount of \$4 million. If I may have unanimous consent, I shall insert here in *Hansard* the usual table showing the details.

Table II
Revenues After Tax Changes
(in millions of dollars)

	1954-55
Personal income tax	\$1,235
Non-resident income tax	55
Corporation income tax	1,200
Succession duties	40
Customs import duties	415
Sales tax	607
Other excise duties and taxes	507
Miscellaneous taxes	15
Total tax revenues	4,074
Non-tax revenues	340
Special receipts and credits	50
Total revenues	4,464
Old Age Security Taxes	
2 per cent sales tax	152
2 per cent personal income tax	97
2 per cent corporation income tax	56
Total	305

I have reminded hon. members almost every year that in dealing with figures of these magnitudes slight changes in revenue can create big changes in the residual surplus. Each one per cent change in revenue means \$45 million. A two or three per cent change means a difference of \$100 to \$125 million.

As I explained earlier, my revenue figures are based on reasonably optimistic assumptions. I have said frankly that their realization depends upon an early resumption of our normal rate of expansion, which in turn depends very heavily on the external influences affecting our economy. If these conditions do not materialize, there could be a moderate deficit of two or three per cent.

That, Mr. Speaker, concludes my presentation of the contents of my budget. We have completed a year which has broken all our past records of economic achievements in production, in investment, in housing and in standards of living. The past six months have seen some mixed trends; some sectors are expanding as rapidly as ever, some have levelled off and a few have actually declined; but I am confident that unless external factors work against us, we shall soon be moving into a new and healthy period of expansion.

Internationally the political situation remains clouded and uneasy, but I believe the prospects for fundamental economic improvement are brighter than at any time since 1947. I am hopeful that the year ahead of us will see new and important constructive moves in the direction of improved international trade and payments arrangements, which will enlarge our established markets and open doors to new markets. These markets and ours will be competitive, and will constitute a challenge to management and labour, to farmers and merchants. The outside world is under no obligation to maintain the Canadian standard of living. That is something we have to do for ourselves. Our costs and our prices will have to be kept in line by continuous improvement in efficiency. I need hardly add that high standards of living and low costs of production cannot be permanently divorced, indeed, the whole economic history of the last hundred years shows that they go together. I am confident that we in Canada can achieve and retain both.

RESOLUTIONS

THE INCOME TAX ACT

Resolved that it is expedient to introduce a measure to amend the Income Tax Act and to provide, amongst other things:

1. That the exemption of income from metalliferous or industrial mineral mines for the first three years of production be extended to mines coming into production during the calendar year 1957.

2. That the special deduction from income allowed to taxpayers whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas, for expenses of exploring or drilling for oil or natural gas in Canada, be allowed for expenses incurred in the calendar year 1957, and that in addition a similar deduction be allowed to corporations whose

principal business is mining or exploring for minerals, for expenses of exploring or drilling for oil or natural gas in Canada incurred in the calendar year 1957.

3. That the special deduction from income allowed to corporations whose principal business is mining or exploring for minerals, for expenses incurred in searching for minerals in Canada be allowed for expenses incurred in the calendar year 1957; and that in addition a similar deduction be allowed to taxpayers whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas, for expenses of searching for minerals in Canada incurred in the calendar year 1957.

4. That the special deduction from income and taxes allowed to taxpayers whose principal business is production, refining or marketing of petroleum or drilling for petroleum and to taxpayers whose principal business is mining or exploring for minerals, for expenses incurred in respect of deep-test oil wells be allowed for expenses incurred in respect of deep-test oil wells spudded in during 1955.

5. That for the 1954 and subsequent taxation years the deduction allowed to an employer or employee in respect of amounts paid or contributed to or under an approved superannuation fund or plan shall be increased from \$900 to \$1,500.

6. For the taxation of a resident mutual insurance corporation, other than a life insurance corporation, as though the surplus arising from its insurance activities on and after January 1, 1954 were a profit from a business, and declaring that a non-resident mutual insurance corporation, other than a life insurance corporation, shall be deemed to be and always to have been subject to taxation on that basis.

THE EXCISE TAX ACT

Resolved that it is expedient to introduce a measure to amend the Excise Tax Act and to provide, among other things:

1. That the excise tax on the following goods be repealed:

(a) furs;

(b) electrical appliances adapted to household or apartment use, namely: blankets; chafing dishes; coffee makers; curling irons or tongs; dish washers; food or drink mixers; food choppers and grinders; floor waxers and polishers; garbage disposal units; hair dryers; irons and ironers; juice extractors; kettles;

portable humidifiers; razors and shavers; toasters of all kinds; vacuum cleaners and attachments therefor; waffle irons;

(c) firearms and complete parts thereof and ammunition;

(d) golf clubs and golf balls;

(e) fishing rods and fishing reels;

(f) cameras, camera lenses and unexposed photographic films and plates; projectors for pictures;

(g) trunks; suitcases; bags and luggage of all kinds; purses; wallets; billfolds; key and card cases; handbags; jewel cases; dressing and toilet cases; shopping bags; golf and other sports bags;

(h) coin, disc or token operated vending machines.

2. That the excise tax on the following goods be reduced from fifteen per cent to ten per cent:

(a) articles, materials or preparations of whatever composition or in whatever form, commonly or commercially known as toilet articles, preparations or cosmetics, which are intended for use or application for toilet purposes, or for use in connection with the care of the human body, including the hair, nails, eyes, teeth, or any other part or parts thereof, whether for cleansing, deodorizing, beautifying, preserving or restoring, and including shaving soaps and shaving creams, antiseptics, bleaches, depilatories, perfumes, scents and similar preparations;

(b) motor cycles and all other two- or three-wheeled motor driven vehicles including motors for attachment to bicycles;

(c) devices, commonly or commercially known as lighters;

(d) coin, disc or token operated games or amusement devices of all kinds;

(e) ash trays; tobacco pipes; cigar and cigarette holders; cigarette rolling devices and other smokers' accessories;

(f) fountain pens; ball-point pens; ink pencils; propelling pencils; desk sets and all other desk accessories;

(g) matches;

(h) tires and tubes in whole or in part of rubber for self-propelled machines or automotive vehicles of all kinds;

(i) clocks and watches;

(j) articles of all kinds made in whole or in part of ivory, jet, amber, coral, mother of pearl, natural shells, tortoise shell, jade, onyx, lapis lazuli, or other semi-precious stones;

(k) articles commonly or commercially known as jewellery, whether real or imitation, including diamonds and other precious

or semi-precious stones for personal use or for adornment of the person; goldsmiths' and silversmiths' products; pewter ware;

(l) articles of cut glassware, crystal glassware, cut or not, etched glassware, or metal decorated glassware;

(m) articles of china, porcelain, earthenware, marble, stoneware, or other pottery ware;

(n) carbonated beverages, aerated waters, unfermented fruit juice beverages and imitations thereof and all other compounded or mixed soft drinks and all mixtures or products advertised or sold for making soft drink beverages or imitations thereof, whether sold in liquid, concentrated or in dry form;

(o) candy, chocolate, chewing gum and confectionery that may be classed as candy or a substitute for candy.

3. That the excise tax on carbonic acid gas and similar preparations be reduced from twenty-five cents per pound to fifteen cents per pound.

4. That the sales tax on the following goods be repealed:

(a) oil and gas burners and stokers for use with furnaces for the heating of buildings;

(b) coal crushers and stokers for use directly in the manufacture or production of goods;

(c) equipment sold to or imported by municipalities for their own use and not for resale, at a price in excess of one thousand dollars per unit, specially designed for use directly for road making, road cleaning or fire fighting, but not to include automobiles nor ordinary motor trucks;

(d) wall panels for use in buildings and materials for use in the manufacture of such panels;

(e) drain tile not exceeding four inches in inside diameter and twelve inches in length;

(f) sheet music and materials used in its manufacture;

(g) hearing aids and parts therefor including batteries specifically designed for use with such hearing aids.

5. That provision be made to require the payment of sales and excise taxes on all products packaged and sold as lighter fluid.

6. That provision be made to require the payment of sales and excise taxes on the packaging used to contain goods subject to these taxes and on any other articles packaged with them whether the goods are imported, or are manufactured or produced in Canada.

7. That provision be made to ensure that machines and tools for operation by tractors are not included as accessories therefor in the prevailing exemption from sales tax.

8. That any enactment founded upon this Resolution be deemed to have come into force on the seventh day of April, nineteen hundred and fifty-four.

THE EXCISE ACT

Resolved that it is expedient to introduce a measure to amend the Excise Act and to provide, among other things:—

1. That the excise duty on malt be repealed and an excise duty of thirty-eight cents a gallon be imposed upon all beer or malt liquor subject to an allowance for wastage.

2. That any enactment founded upon this Resolution be deemed to have come into force on the seventh day of April, nineteen hundred and fifty-four.

THE CUSTOMS TARIFF

1. Resolved, that Schedule A to the Customs Tariff be amended by deleting therefrom the following enumeration of goods and rate of additional duty of customs:

"Ale, beer, porter and stout, 40 cents per gallon"; and by substituting therefore the following enumeration of goods and rate of addition duty of customs:

"Ale, beer, porter and stout, 38 cents per gallon."

2. Resolved, that Schedule A to the Customs Tariff be further amended by striking thereout tariff items 187, 189, 263b, 290, 343, 345a, 352a, 353(a), (b), (c), (d), (e), (f), (g), (h) and (i), 402, 409c(1), 409e(1), 409f, 409m(1), 410f(1), 410o(i), 418, 426, 431h, 437, 440i, 442, 443b, 443d(1) and (2), 445r, 446k, 451, 453a, 476a, 480a, 499a, 535e, 561, 569d, 618b(1) and (2), 660a, 696(1), 696a, 703(c), 704, 705a and 848(2), the several enumerations of goods respectively, and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said Schedule A:

SCHEDULE "A"

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
				British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
12b	10 p.c.	15 p.c.	35 p.c.	17½ p.c.	25 p.c.	35 p.c.
187	Free	20 p.c.	30 p.c.	Free	20 p.c. (Prior to November 10, 1952.)	30 p.c.
189	Free	Free	Free	Free 10 p.c. 15 p.c.	Free 22½ p.c. 20 p.c.	Free 35 p.c. 30 p.c.
206a	Free	Free	Free	Various	Various	Various
237a	Free Free	Free 15 p.c.	25 p.c. 25 p.c.	Free	15 p.c.	25 p.c.
263b	Free	Free	25 p.c.	Free 15 p.c.	Free 20 p.c.	25 p.c. 25 p.c.
290	5 cts.	8 cts.	8 cts.	5 cts. 15 p.c.	8 cts. 20 p.c.	8 cts. 25 p.c.
343	Free	5 p.c.	5 p.c.	Free	5 p.c.	5 p.c.
345a	½ ct.	1 ct.	1 ct.	½ ct.	1 ct.	1 ct.

Tariff Item	—	Rates in Effect Prior to Rates Proposed in this Budget			
		British Preferential Tariff	Most- Favoured-Nation Tariff	British Preferential Tariff	General Tariff
352a	(1) Bells, when imported for use of churches only..... (2) Bells, electronically operated or not, including amplifiers, drivers, reproducers, transformers, keyboards, automatic control coders, pealing devices (strikes), perforated roll players and <i>perforated rolls</i> for such players, all specially designed for use with such bells, but not to include separate record players, control cabinets containing record playing devices nor microphones; parts thereof; the foregoing when for use in churches only.....	Free	Free	Free	Free
353	Aluminum and alloys thereof: (a) Pigs, ingots, blocks, notch bars, slabs, billets, blooms, and wire bars.....per pound (b) Bars, rods, plates, sheets, strips, circles, squares, discs and rectangles.....per pound (c) Angles, channels, beams, tees and other rolled, drawn or extruded sections and shapes..... (d) Wire and cable, twisted or stranded or not, and whether reinforced with steel or not..... (e) Pipes and tubes..... (f) Leaf, n.o.p., or foil, less than .005 inch in thickness, plain or embossed, with or without backing. (g) Aluminum powder..... (h) Aluminum leaf, less than .005 millimetre in thickness..... (i) Aluminum scrap..... Nothing shall be deemed to be aluminum scrap except waste or refuse aluminum, fit only to be remelted.	Free Free Free Free Free Free Free Free Free	Free 2 cts. 3 cts. 22½ p.c. 22½ p.c. 22½ p.c. 30 p.c. 30 p.c. Free Free	Free Free Free Free Free Free Free Free Free Free	Free Free 35 p.c. 5 cts. 7½ cts. 30 p.c. 30 p.c. 30 p.c. 30 p.c. 30 p.c. Free Free

Tariff Item		Rates in Effect Prior to Rates Proposed in this Budget			
		British Preferential Tariff	Most- Favoured-Nation Tariff	British Preferential Tariff	General Tariff
410o	(1) Coal heading machines, electric or magnetic machines for concentrating or separating iron ores, automatic scales for use with conveyors, and parts of all the foregoing, for use exclusively in mining or metallurgical operations	Free	Free	Free	Free
418	Machinery and apparatus and parts thereof, imported by manufacturers for use exclusively in the manufacture of fish meal, liquid fish and fish solubles, stock and poultry food and fertilizers from fish and waste thereof, in their own factories	Free	15 p.c.	Free Various	20 p.c. Various
418a	Devices for the automatic control of the composition of sterilizing and cleaning solutions used for sterilizing and cleaning purposes in food and beverage industries and in hospitals; parts of the foregoing	5 p.c.	12½ p.c.	15 p.c.	30 p.c.
428	Ozone generators or ozone airifiers and parts thereof, of a class or kind not made in Canada	Free	5 p.c.	Free	10 p.c.
427k	(1) Machinery, of a class or kind made in Canada, for working metal by turning, milling, grinding, drilling or boring, planing or shaping, and shearing or pressing, and accessories and attachments thereof; parts of the foregoing	10 p.c.	22½ p.c.	10 p.c. Various	35 p.c. Various
	(2) Machinery, of a class or kind not made in Canada, for working metal by turning, milling, grinding, drilling or boring, planing or shaping, and shearing or pressing, and accessories and attachments thereof; parts of the foregoing	Free	7½ p.c.	Free Various	35 p.c. Various
428i	Governors and parts thereof for use in the manufacture of diesel locomotives	Free	7½ p.c.	Free	30 p.c.

431h	Geophysical surveying precision instruments and equipment for use exclusively in prospecting for, or in the exploration and development of, petroleum, natural gas, water wells and minerals, or for geophysical studies for engineering projects, including the following: magnetometers; gravity meters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force; field potentiometers, meggers, non-polarizing electrodes, and electrical equipment for making measurements in drill holes; instruments and equipment for seismic prospecting; geiger-muller counters and other instruments for radioactive methods of geophysical prospecting; electrical and electronic amplifying devices and electrical thermostats designed to be used with any of the foregoing; <i>sodium iodide crystals, thallium activated, in rough cut blanks, when imported to be manufactured into parts for use in instruments for prospecting</i> ; all the foregoing of a class or kind not made in Canada, and repair parts, tripods and fitted carrying cases for any of the foregoing.....	Free	Free	30 p.c.	Free 15 p.c.	Free 20 p.c.	30 p.c. 25 p.c.
437	Locomotives, cars and coaches and repair equipment, belonging to railroads, brought temporarily into Canada for clearing obstructions, fighting fires, or making emergency repairs on railway lines within Canada; detector cars and rail flaw detector apparatus when imported to test rail in trucks in Canada.	Free	Free	Free	Free 15 p.c.	Free 22½ p.c.	Free 30 p.c.
437a	(1) <i>Materials, including all parts, of a class or kind not made in Canada, used in the construction or repair of railway signal systems</i> (2) <i>Copper oxide, zinc, alkaline electrolyte, primary (wet) cell batteries, of a class or kind not made in Canada, for railway signal systems; parts of the foregoing</i> (3) <i>Insulated rail joints and connections for use therewith, used in the construction or repair of railway signal systems; parts of the foregoing</i>	Free	Free	30 p.c.	15 p.c. Various	22½ p.c. Various	30 p.c. Various
437b	<i>Motor rail cars or units and chassis for same, of a class or kind not made in Canada, for use on railways for the carriage of passenger, baggage, mail or express traffic; engines and transmissions for such motor rail cars or units; parts of the foregoing</i> On an 'after July 1, 1956	Free	Free	25 p.c. 35 p.c.	\$5.00 per ton Various	\$7.00 per ton Various	\$8.00 per ton Various
		Free	Free	25 p.c. 35 p.c.	Free	20 p.c.	35 p.c.

Tariff Item		Rates in Effect Prior to Rates Proposed in this Budget				
		British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff
440i	The following articles and materials when imported for use only in the manufacture, maintenance or repair of buoys and beacons for the Government of Canada, viz.: flanged and disshled steel boiler plate heads over five feet in diameter; lanterns and electric flashing lights; fog horn and other warning equipment; marine radio beacon timing equipment; actuating equipment, including low discharge storage batteries and motors; parts of all the foregoing.....	Free	Free	Free	Free 15 p.c. Various	Free 22½ p.c. Various
441g	Grenades, cartridges and projectiles containing tear gas or sickening gas, imported for sale to federal, provincial or municipal law enforcement authorities.....	Free	7½ p.c.	30 p.c.	10 p.c.	22½ p.c.
442	Articles and materials which enter into the cost of manufacture of the goods enumerated in tariff items 409, 409a, 409b, 409c, 409d, 409e, 409f, 409g, 409h, 409i, 409j, 409k, 409l, 409m, 409n, 409o, 409p, 409q, 427b(1), 433c and 618b (1), when imported for use in the manufacture of the goods enumerated in the aforesaid tariff items, or in the manufacture of parts therefor, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free Various	Free Various
443b	Oven thermostats, automatic oven lighters and dual valves, for use in the manufacture of apparatus designed for cooking with gas.....	Free	10 p.c.	30 p.c.	Free	10 p.c.
443d	Gas control devices for use on cooking apparatus, or on apparatus for heating buildings, or on apparatus for heating water, or on apparatus for refrigeration, or in the gas line between such apparatus and the meter, or in the gas line between such apparatus and the consumer's gas storage device; gas control devices for the manufacture or repair of, or for conversion to, gas-fired apparatus for cooking, or for heating buildings, or for heating water, or for refrigeration; parts of all the foregoing: 1. When of a class or kind not made in Canada..... 2. When of a class or kind made in Canada.....	Free	5 p.c. 10 p.c.	30 p.c. 30 p.c.	Free Free Various	7½ p.c. 10 p.c. Various

445r	Apparatus for the receiving and transmitting of photographs, weather maps and charts, by wire; <i>parts of the foregoing</i>	Free	Free	30 p.c.	Free	22½ p.c.	30 p.c. 30 p.c.
446k	Tools, wholly or in part of iron or steel, n.o.p., of a class or kind not made in Canada for use in machines	Free					
451	Buckles, clasps, eyelets, hooks and eyes, dome, snap or other fasteners of iron, steel, brass or other metal, coated or not, n.o.p. (not being jewellery); <i>parts of all the foregoing</i>	15 p.c.	7½ p.c.	35 p.c.	Free	10 p.c. 22½ p.c.	35 p.c. 35 p.c.
453a	Metal parts, n.o.p., in any degree of manufacture but not coated, plated nor covered in any manner, for use in the manufacture of spectacle cases and jewellery boxes; <i>kings of any material, finished or not, for use in the manufacture of spectacle cases and jewellery boxes</i>		22½ p.c.	30 p.c.	15 p.c. 15 p.c. Various	22½ p.c. 22½ p.c. Various	30 p.c. 45 p.c. Various
476a	Glassware and other scientific apparatus for laboratory work in public hospitals; chairs and tables for surgical operating purposes and parts thereof; infant incubators and parts thereof; <i>infant and patient identification tapes and ribbons of any material</i> ; infant identification bead sets including cases, and parts thereof; electrocardiographs and parts thereof, and sensitized film and paper for use therein; electroencephalographic paper; apparatus for sterilizing purposes, including bedpan washers and sterilizers but not including washing nor laundry machines; all for the use of any public hospital, under such regulations as the Minister may prescribe.....	Free	12½ p.c.	35 p.c.	Free	12½ p.c.	35 p.c.
480a	Invalid chairs, with wheels; <i>invalid chairs, designed to be used with wheels</i> ; parts of the foregoing including motive power and wheel assemblies and parts thereof.	Free	Free	Free	Free	Free	Free
490a	Nut shells; nut shell flour, wood flour, bark flour, and mixtures thereof; <i>corn cob granules or flour</i>	Free	10 p.c.	15 p.c.	Free	10 p.c. 25 p.c.	15 p.c. 45 p.c.
535e	Vegetable fibres, horse hair, and mixtures of vegetable fibres and horse hair, for use exclusively in the manufacture of brooms and brushes.....	Free	Free	20 p.c.	Free	Free	20 p.c. 25 p.c.
			7½ p.c.		Free	5 p.c. Free 10 p.c. 20 p.c.	7½ p.c. Free 17½ p.c. 25 p.c.

Tariff Item	—	Rates in Effect Prior to Rates Proposed in this Budget					
		British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff	British Preferential Tariff	Most- Favoured-Nation Tariff	General Tariff
540a	Woven jute fabric, impregnated, imported in lengths not more than three feet each.....	Free	5 p.c.	15 p.c.	13½ p.c.	22½ p.c.	30 p.c.
561	Woven fabrics wholly or in part of synthetic textile fibres or filaments, not containing wool, not including fabrics in chief part by weight of silk, n.o.p..... and, per pound	27½ p.c.	40 p.c. 40 cts.	45 p.c. 40 cts.	27½ p.c.	40 p.c. 40 cts.	45 p.c. 40 cts.
509d	Woven fabrics containing five per cent or less, by weight, of synthetic textile fibres or filaments are not dutiable under this item, but are dutiable as though such fabrics were composed only of the remaining constituents. (1) Woven fabrics, not exceeding three inches in width, made with unserrated selvages, generally known as single, double or four shot corded ribbon, imported by the manufacturers of men's hats for use exclusively in their own factories in making the bands for, or in binding the edges of, men's hats only..... (2) Woven fabrics, pleated or folded, sewn or not, in widths not exceeding three inches after pleating or folding, imported by manufacturers of men's hats for use in their own factories in making bands for men's hats only.....	Free Free	Free Free	Free Free	Free 22½ p.c. Free	Free 25 p.c. Free	Free 35 p.c. Free
579	Buffing and polishing wheels or discs: (1) The component of chief value being cotton..... and, per pound (2) The component of chief value being wool.....	25 p.c. 10 p.c.	25 p.c. 12½ p.c.	35 p.c. 4 cts. 35 p.c.	25 p.c. 25 p.c.	25 p.c. 27½ p.c.	35 p.c. 4 cts. 40 p.c. and 35 cts. per lb.
618b	Tires and tubes, wholly or in part of rubber: (1) For equipment of the agricultural implements and agricultural machinery specified in tariff items 400b, 409c, 409d, 409e, 409f, 409h, 409j, 409l, and the tractors provided for in tariff item 409m (2) N.o.p.....	Free 20 p.c.	Free 22½ p.c.	Free 35 p.c.	Free 20 p.c.	Free 22½ p.c.	Free 35 p.c.

600a	<i>Synthetic resin or cellulose plastic sheets or plates, coated or not, with or without turned edges, for the production of engravings for use by printers.....</i>	Free	7½ p.c.	30 p.c.	Free 15 p.c.	7½ p.c. 20 p.c.	30 p.c. 30 p.c.
606	(1) Philosophical and scientific apparatus (and ancillary equipment thereto), utensils, instruments, and preparations, including boxes and bottles containing the same; maps, charts, photographic reproductions and other pictorial illustrations, casts as models, animals as research or experimental subjects; living plants, seeds, cuttings, buds, scions, tubers, bulbs and root-stock; mechanical equipment of a class or kind not made in Canada; parts of the foregoing. All articles in this item, when for the use and by order of any society or institution incorporated or established solely for religious, philosophical, educational, scientific or literary purposes, or for the encouragement of the fine arts, or for the use and by order of any public hospital, college, academy, school, or seminary of learning in Canada, and not for sale or for rental, under such regulations as the Minister may prescribe.....	Free	Free	Free	Free	Free	Free
606a	Moving picture films, sound or silent, separate sound film track, slides and slide films, positive or negative; sound discs, records and transcriptions; models, static and moving; wall charts, maps and posters; when certified by a recognized representative authority of the Government of Canada or when certified by the Government or by a recognized representative authority of the Government of the country of production or by an appropriate representative of the United Nations Educational, Scientific and Cultural Organization as being of an international educational, scientific or cultural character; subject to such regulations as the Minister may prescribe...	Free	Free	Free	Free	Free	Free
703	(c) Goods (not including alcoholic beverages, cigars, cigarettes or manufactured tobacco) imported by employees of the Canadian Government or by members of the Canadian Armed Forces after an absence from Canada of not less than one year and acquired by them for personal or household use and actually owned abroad by them for at least six months before their return to Canada, under such regulations as the Minister may prescribe..... Any such goods that are sold or otherwise disposed of within twelve months after importation are subject to the duties and taxes otherwise prescribed.	Free	Free	Free	Free	Free	Free

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
704	(a) Apparel, wearing and other personal and household effects not merchandise, of British subjects dying abroad, but domiciled in Canada; books, pictures, family plate or furniture, personal effects and heirlooms left by bequest to any resident of Canada, or acquired by any resident of Canada, as a result of the death of any person resident abroad, or as a gift in anticipation of the death of any such person; all such goods or articles when given as a free gift by anyone resident abroad to a resident of Canada; the Minister to be the sole judge as to whether any goods or any article imported is to be classified as entitled to the benefit of this item or not.....	Free	Free	Free	Free	Free	Free
	(b) <i>Personal gifts, not exceeding twenty-five dollars in value and not including cigarettes, tobacco and alcoholic beverages, from members of the Canadian Forces serving abroad, to relatives or friends in Canada.....</i>	Free	Free	Free	Free Various	Free Various	Free Various
705a	Settlers' effects, viz.: Machines and implements for agricultural purposes, moved by mechanical power, and motor vehicles valued at not more than <i>twenty-five hundred dollars</i> , and boats for fishing purposes, if actually owned abroad by the settler for at least six months before his removal to Canada, and subject to regulations prescribed by the Minister of National Revenue.....	Free	Free	Free	Free Free	Free 17½ p c	Free 27½ p c

In respect to motor vehicles valued in excess of *twenty-five hundred dollars* duty shall be payable only on the amount in excess of *twenty-five hundred dollars*.

The said machines, vehicles, implements and boats may not be so entered unless brought by the settler on his first arrival, and shall not be sold or otherwise disposed of without payment of duty until after twelve months' actual use in Canada.

708b) Arms, military stores and munitions of war imported by the Government of Canada in replacement of or in anticipation or actual exchange for similar goods loaned to or exchanged or to be exchanged with the governments of a British Commonwealth country or a foreign country designated by the Governor in Council under tariff item 708, under such regulations as the Minister may prescribe.....	Free	Free	Free	Various	Various
848 (2) Machinery and apparatus and parts thereof (including motive power) and drilling mud, for use in the exploration, discovery, development and operation of potash and rock salt mines and for use in the production of muriate of potash and in the production of crushed and screened rock salt.....	Free	Free	Free	10 p.c. Free Various	35 p.c. 35 p.c. Various
(3) Seamless, lapwelded and electric welded iron or steel casing, tubing and drill pipe, of a class or kind not made in Canada, used in connection with the exploration, discovery, development and operation of potash and rock salt mines and for use in the production of muriate of potash and in the production of crushed and screened rock salt.....	Free	Free	Free	15 p.c. 10 p.c. Various	30 p.c. 20 p.c. Various
(4) Materials for use in the manufacture of the goods enumerated in tariff items 848 (1), (2) and (3).....	Free	Free	Free	Free Various	Free Various

3. Resolved, that Schedule B to the Customs Tariff be amended by striking thereout tariff items 1004, 1003, 1010, 1013, 1019, 1021, 1022, 1024, 1032, 1033, 1037, 1038, 1039, 1048, 1049, 1052, 1091, 1095 and 1098, the enumerations of goods and the rates of drawback of customs duties set opposite to the said items, and by inserting the following items, enumerations and rates of drawback of customs duties in said Schedule B:

Item No.	Goods	When Subject to Drawback	Portion of Duty (not including Special Duty or Dumping Duty) Payable as Drawback
1044	<i>Fire clay fire brick</i>	When used by basic producers of iron or steel in the construction or repair of blast furnaces, open hearth furnaces (including checker chambers), electric furnaces, blast furnace stoves, soaking pit furnaces and rolling mill furnaces or in the construction or repair of ladles used with any of the foregoing furnaces	99 p.c.
1052	<i>Machinery and precision instruments and apparatus for heat treating, welding, sorting, testing, inspecting or correcting; control panels for use with the aforementioned machinery and precision instruments and apparatus; all the foregoing, either new or used, of a class or kind not made in Canada and all parts thereof, not including consumable tools.</i>	When for use in the plants of manufacturers of automobiles and motor vehicles or of automobile or motor vehicle parts for the manufacture of automobiles and motor vehicles or of automobile or motor vehicle parts	99 p.c.

4. Resolved, that any enactment founded upon the foregoing resolutions shall be deemed to have come into force on the seventh day of April, one thousand nine hundred and fifty-four, and to have applied to all goods mentioned in the foregoing resolutions imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

BUDGET PAPERS

presented by

the Honourable D. C. Abbott, M.P.,

for the information of Parliament

in connection with the Budget of 1954-55

FOREWORD

The purpose of these Papers is twofold:

1. to present a general economic review of 1953, bringing together in one place and in convenient form some of the more comprehensive indicators of economic conditions prepared by the Dominion Bureau of Statistics and other Government Agencies, together with brief comments;
2. to present a preliminary review of the Government accounts for the fiscal year ending March 31, 1954.

PART I

ECONOMIC REVIEW OF 1953

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The tables in this Budget Paper are based upon estimates provided by the Dominion Bureau of Statistics and other Government Departments. Some of the figures appear for the first time; others have been published elsewhere. All 1953 estimates are preliminary and subject to revision.

THE NATIONAL ACCOUNTS

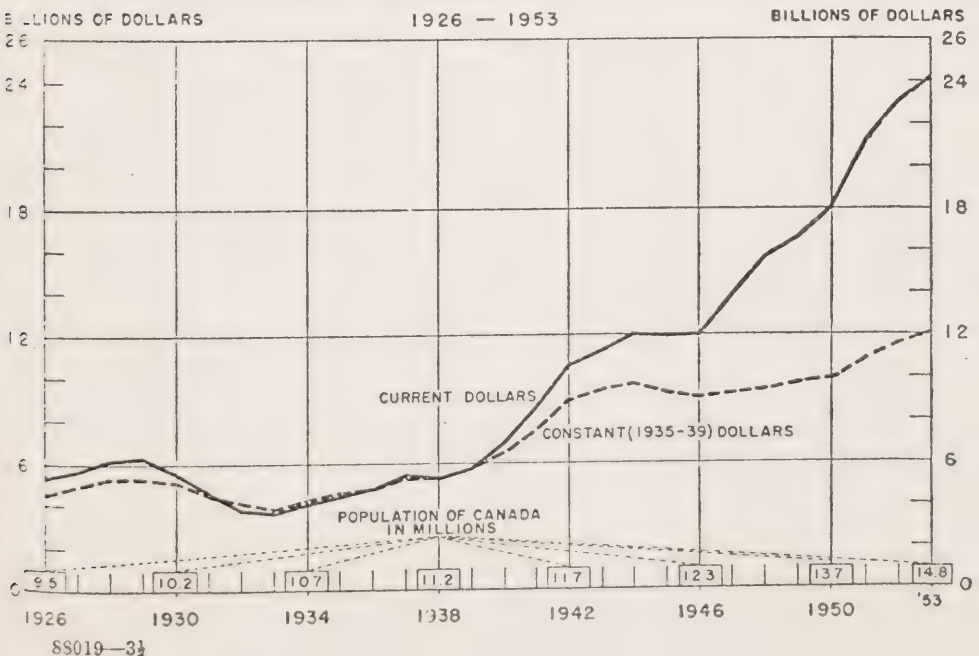
NATIONAL INCOME AND PRODUCT

Preliminary estimates indicate a gross national product of about \$24.3 billion for 1953, an increase of \$1.1 billion over 1952. In terms of volume or real product it is estimated that the increase amounted to almost 4 per cent. At the same time the population of Canada increased by 2.5 per cent and the civilian labour force by 1.3 per cent.

The gain of something less than 4 per cent in the volume of production for 1953 is not, at first glance, as striking as the gains of about 6 per cent which were made in each of the three years 1950, 1951 and 1952. However, this somewhat smaller gain for 1953 does not indicate any reduction in the growth of non-agricultural output. On the contrary, non-agricultural production increased by about 5 per cent in 1953 which is as high as the increase of 1952. There were substantial volume increases in manufacturing and construction, in mining and public utilities, and in wholesale and retail trade. In fact, with the exception of agriculture and forestry, all branches of production appear to have shown increased output for the year as a whole. But the volume of agricultural production, although still very high in absolute terms, was substantially below the record level of 1952.

The expansion in output was greater in the first half of the year when the volume of manufacturing production was rising substantially. This is well illustrated by the index of industrial production which showed a steady advance throughout the early part of the year and comparative stability, with some tendency to decline, in the last half. The high level of production reached early in the year was fairly well maintained through the third quarter; but the down turn of the fourth quarter brought the index at year end to a level slightly below that of December 1952.

GROSS NATIONAL EXPENDITURE
IN CURRENT AND CONSTANT (1935-39) DOLLARS



For the second successive year labour income increased by an amount greater than the total increase in national income. Salaries and wages, inclusive of military pay and allowances, rose by \$900 million or 8 per cent compared with an increase of 12 per cent in 1952. Most of the increase was the result of higher rates of pay but there was an increase of about 2 per cent in the number of paid workers. Labour income constituted 63 per cent of national income in 1953, the highest proportion of the post-war period.

Net farm income is estimated to have declined by almost 14 per cent from the level of 1952. More than half of this decline was the result of a reduction in the volume of agricultural production although lower prices also prevailed for many agricultural products. There was a continuance of the trend toward a lower agricultural labour force which has been noticeable for some time. This was particularly true in regard to unpaid family workers.

Net income of unincorporated business other than farming is estimated to have increased by \$128 million or about 8 per cent.

Investment income is estimated to have increased by \$52 million or somewhat more than 1 per cent. Tentative estimates of corporation profits, the largest component of investment income, indicate a decline of about 3 per cent; but this decrease was more than offset by increases in other categories of investment income such as rents and interest, and by some reduction in dividends paid abroad. This was the second successive year in which corporation profits declined despite large net additions to plant and equipment. However, they were still slightly above the level of 1950.

NATIONAL EXPENDITURE

During 1953 the volume of Canadian production increased by about 4 per cent. In addition, Canadians drew more heavily on foreign production than in the previous year. Thus, imports of goods and services exceeded exports of goods and services by about \$466 million in 1953 compared with an excess of exports over imports of some \$166 million in 1952. Taking these two factors

TABLE 1
NATIONAL INCOME AND GROSS NATIONAL PRODUCT

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
1. Wages, salaries and supplementary labour income.	8,311	9,717	10,792	11,653
2. Military pay and allowances.....	137	201	270	309
3. Investment income.....	3,155	3,649	3,687	3,739
4. Net income of unincorporated business—				
(a) farm operators from farm production ¹	1,503	2,106	1,934	1,667
(b) non-farm unincorporated business.....	1,444	1,507	1,552	1,680
5. National Income (1+2+3+4).....	14,550	17,180	18,235	19,048
6. Indirect taxes less subsidies.....	2,018	2,478	2,744	2,903
7. Depreciation allowances and similar business costs	1,636	1,921	2,126	2,353
8. Residual error of estimate.....	-1	-66	+107	+31
9. Gross National Product at Market Prices (5+6+7+8).....	18,203	21,513	23,212	24,345
10. Index of G.N.P. in Constant Dollars.....	100	106	113	117

¹ Includes undistributed Wheat Board trading profits, and inventory valuation adjustment on a calendar year basis for grain held by Wheat Board.

into account, the net increase in goods and services drawn from abroad as well as the increase in Canadian production, Canadians used about 6 per cent more goods and services in 1953 than in 1952. About half of this 6 per cent increase in the volume of goods and services used by Canadians was absorbed by increases in personal expenditure on consumer goods and services. Investment in residential construction and in inventories each accounted for about one-fifth of the increase. The remainder was absorbed by the less striking increases in government expenditure and in non-residential construction.

Consumer expenditure rose from \$14,424 million to \$15,147 million, an increase of \$723 million or 5 per cent compared with an increase of \$1,126 million or 8 per cent in 1952. The percentage increase in consumer expenditure was no greater than the growth in government expenditure on goods and services and very much less than the expansion of one-third in the volume of residential construction. Nevertheless, in absolute terms, the increase in personal expenditure on consumer goods and services contributed about 50 per cent of the nation's increase in demand and was the largest single element of expansion in the Canadian economy during 1953. This was in contrast to 1952, when an equally powerful forward thrust was supplied by increases in government expenditure; and came about not because of any acceleration in the growth of consumer spending, but because of a levelling off in government outlays for defence. This expansion in consumer spending and the large increase in expenditure on housing, its counterpart in the investment category, are closely related to the substantial relative and absolute increase in labour income which was noted above.

Of the \$185 million increase in government expenditure on goods and services in the calendar year 1953, about half was the result of increased defence spending. The increase in defence expenditure was thus about one-sixth as large as the expansion which occurred in 1952. The decline in the relative importance of the increase in government expenditure as a stimulating force in the economy can be seen by comparing it with changes in consumer expenditure. In 1952, for example, the increase in government spending on goods and services was almost equal to the increase in consumer expenditure but in 1953 it was only 26 per cent of the latter.

TABLE 2
GROSS NATIONAL EXPENDITURE

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
1. Personal expenditure on consumer goods and services	12,029	13,293	14,424	15,147
2. Government expenditure on goods and services....	2,326	3,243	4,223	4,403
3. Gross domestic investment—				
(a) plant, equipment and housing.....	3,216	3,810	4,265	4,701
(b) change in inventories.....	960	1,620	241	585
4. Exports of goods and services ¹	4,183	5,089	5,588	5,426
5. Imports of goods and services ¹	-4,513	-5,613	-5,422	-5,892
6. Residual error of estimate.....	+2	+66	-107	-30
7. Gross National Expenditure at Market Prices (1+2+3+4+5+6).....	18,203	21,513	23,212	24,345
8. Index of G.N.E. in Constant Dollars.....	100	106	113	117

¹ Minor adjustments have been made to the figures of current receipts and payments shown in Table 11 and in "The Canadian Balance of International Payments, 1926 to 1951", Dominion Bureau of Statistics, to achieve consistency with the other component series.

Investment in plant, equipment and housing increased by \$436 million, about 10 per cent in terms of value and almost 8 per cent in terms of volume. Almost two-thirds of this increase was in residential construction.

Additions to inventories of farm grain and livestock and grain in commercial channels declined by \$120 million in 1953. Business inventory accumulation, on the other hand, showed a large increase since the volume of business inventories rose by about 5 per cent in 1953 while there had been virtually no change for 1952 as a whole. This increase was confined to the first three quarters of 1953, being about 7 per cent for that period. The change from large inventory accumulation in the first three quarters to an inventory decline in the last quarter was much more pronounced than can be accounted for by the normal seasonal movement. In the first three quarters of the year the accumulation of business inventories absorbed almost as much of the increase in the nation's product as did the increase in consumer expenditure, and for the year as a whole it was as large as the increase in capital investment.

PERSONAL INCOME AND ITS DISPOSITION

Personal income differs from national income in a number of ways. While national income is the total of the annual earnings of Canadian residents from the production of goods and services, personal income is the sum of the current receipts of income regardless of whether these receipts are earnings from production. For example, personal income includes only that part of corporation profits which is actually received by Canadian persons as dividends. On the other hand, transfer payments such as family allowances, old age pensions, veterans' benefits and charitable contributions of corporations, are part of personal income although they are not payments for services and, therefore, do not form part of national income.

During 1953 personal income rose by \$951 million or 6 per cent despite a substantial decline in receipts of farm income. As in 1952, this gain in money income represented a significant gain in real income since consumer prices were relatively stable.

TABLE 3
SOURCES OF PERSONAL INCOME

	1950	1951	1952	Prelim. 1953
(Millions of Dollars)				
1. Wages, salaries and supplementary labour income...	8,311	9,717	10,792	11,653
Deduct: Employer and employee contributions to social insurance and government pension funds.	-256	-329	-357	-388
2. Military pay and allowances.....	137	201	270	309
3. Net income received by farm operators from farm production ¹	1,402	2,142	1,909	1,642
4. Net income of non-farm unincorporated business....	1,414	1,507	1,552	1,680
5. Interest, dividends and net rental income of per- sons ²	1,295	1,416	1,530	1,654
6. Transfer payments to persons (excluding interest)—				
(a) from government.....	1,033	1,033	1,377	1,469
(b) charitable contributions made by cor- porations.....	25	27	30	30
(c) net bad debt losses of corporations.....	23	25	25	28
7. Personal Income (1+2+3+4+5+6).....	13,414	15,739	17,128	18,079

¹ Excludes undistributed profits of the Wheat Board and an inventory valuation adjustment on a calendar year basis for grain held by the Wheat Board.

² Includes all government debt interest paid to persons.

Labour income is the largest component of personal income and comprises almost 66 per cent of the total. Thus, the increase in personal income was due in large measure to the 8 per cent increase in salaries and wages although some other components increased at a comparable rate. Government transfer payments increased by \$92 million or 7 per cent, most of the increase being the result of normal growth in family allowances and old age pensions and some increase in unemployment insurance benefits.

Net income of farmers declined by 14 per cent in 1953 but the reduction in farm cash income is estimated at only 4 per cent. This result arose because a much smaller part of the 1953 farm income was kept in the form of increased inventory at year-end. There was some decline in prices of agricultural produce but the decline in volume of agricultural production was a slightly more important factor in the reduction of income. As noted elsewhere, the decline in farm income should be considered in relation to the estimated 4 per cent reduction in the agricultural labour force.

Net income of unincorporated businesses other than farming is estimated to have increased by 8 per cent. Income from interest and rents increased but dividends paid out by corporations are estimated to have declined moderately in line with the reduction in corporate profits.

The pattern of the disposition of personal income was not significantly different than that of 1952. Despite the mid-year reduction in the rate of personal income tax, the increase in personal incomes was sufficient to bring about an increase of 9 per cent in the revenue from this tax.

While disposable income, or personal income after taxes, increased by \$842 million, personal expenditure on consumer goods and services rose by \$723 million so that there was an increase of \$119 million in personal saving. In fact, exclusive of changes in farm inventories, which are to a considerable extent involuntary, personal savings rose by \$292 million or about 26 per cent. Some substantial part of this increase in saving can be traced to the 35 per cent increase

DISPOSITION OF PERSONAL INCOME

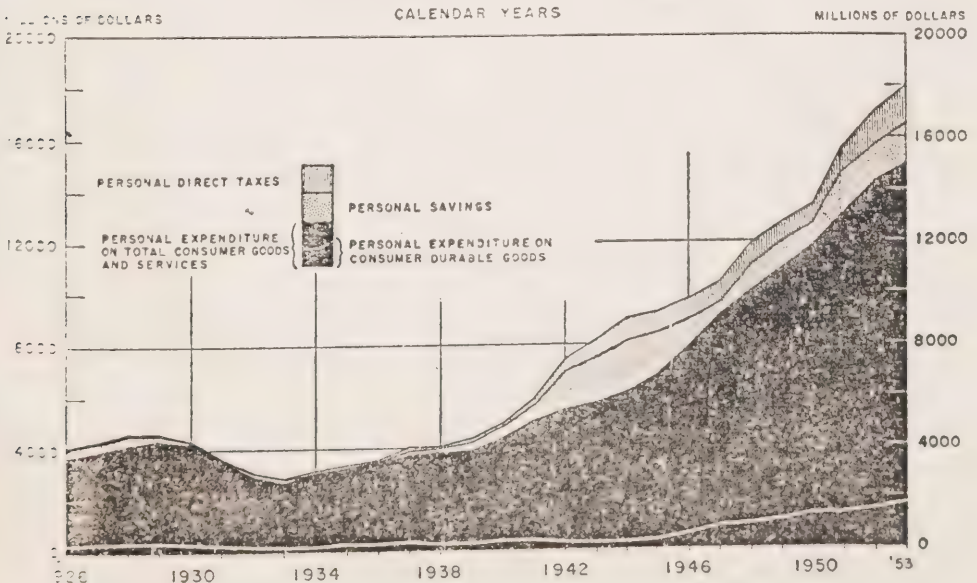


TABLE 4
DISPOSITION OF PERSONAL INCOME

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
1. Personal direct taxes—				
(a) income taxes.....	612	890	1,177	1,287
(b) succession duties.....	66	69	72	73
(c) miscellaneous taxes.....	62	71	74	72
Total direct taxes.....	740	1,030	1,323	1,432
2. Personal expenditure on consumer goods and services—				
Goods—				
(a) non-durable.....	7,241	8,001	8,517	8,766
(b) durable.....	1,343	1,398	1,559	1,759
Services.....	3,445	3,899	4,348	4,622
Total consumer expenditure.....	12,029	13,298	14,424	15,147
3. Personal saving—				
(a) personal saving excluding farm inventories	514	1,057	1,144	1,436
(b) change in farm inventories.....	131	354	237	64
Total personal saving.....	645	1,411	1,381	1,500
4. Personal Income (1+2+3).....	13,414	15,739	17,128	18,079

in residential construction since down-payments for housing constitute part of the nation's savings. A further factor in the increase in personal saving is the large element of contractual saving which increases year by year with the steady growth in pension plans, insurance, and the monthly amortization of mortgages on housing. Personal saving constituted 9.0 per cent of disposable income in 1953 compared with 8.7 per cent in 1952, 9.6 per cent in 1951 and 5.1 per cent in 1950.

The largest increase in consumer spending was on durable goods, sales of which increased by almost 13 per cent. This increase was heavier in the early part of the year and was accompanied by a substantial increase in consumer credit, particularly in the second quarter of the year. Expenditure on non-durable goods rose by something less than 3 per cent while expenditure on services rose by 6 per cent, reflecting the higher prices of services rather than a heavy expansion in volume. The increase in spending on services is comparable to the increase in personal income itself. The expansion in current consumption did not quite keep pace with the rise in income although it reflected that influence. However, personal expenditure on consumer goods and services cannot be considered without taking account of personal expenditure for housing which is classified as investment in the national accounts. A significant portion of the increase in savings for 1953 was used to finance increased personal investment in housing.

Examination of the quarterly trends in consumer expenditure indicates that increases were confined for the most part to the first half of the year and that there was some levelling off in the third and fourth quarters. Thus, the fourth quarter of 1953 was less than 3 per cent above the fourth quarter of 1952 although the first and second quarter comparison indicates a gain of 6.5 per cent. After allowing for price changes, the volume of consumer expenditure rose by almost 5 per cent, or in per capita terms by about 3 per cent. This was the

second successive year in which substantial gains were made in the volume of consumption without causing a decline in savings, a result made possible by the large increase in real income.

SOURCE AND DISPOSITION OF SAVING

Saving is the source from which investment expenditure is financed. In addition to personal saving, which was mentioned in the preceding section, there is government saving and business saving.

It is estimated that during 1953 the nation as a whole saved \$225 million more than in 1952, an increase of about 5 per cent. Both personal and business saving increased but the surplus for all levels of government combined dropped to \$136 million, so that government saving was no longer a substantial factor in the total. The amount saved by persons and businesses became relatively more important and constituted about 97 per cent of the nation's total saving compared with 92 per cent in 1952 and 80 per cent in 1951.

TABLE 5
SOURCES OF SAVING

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
Personal saving.....	645	1,411	1,381	1,500
Gross business saving—total.....	2,556	2,578	2,804	3,123
(a) Undistributed corporation profits.....	844	721	673	763
(b) Depreciation allowances.....	1,636	1,921	2,126	2,358
(c) Net bad debt losses of corporations.....	-23	-25	-25	-28
(d) Undistributed Wheat Board trading profits and inventory valuation adjustment on grain held by Wheat Board.....	101	-36	25	25
(e) Inventory valuation adjustment ¹	-2	-3	5	5
Adjusted government surplus (+) or deficit (-) ²	648	1,049	273	136
Residual error of estimate ³	-1	-66	+107	+31
Total.....	3,848	4,972	4,565	4,790

¹ The adjustment has been made only to grain held in commercial channels.

² See Table 10.

³ See Tables 1 and 2.

Personal saving, or the amount set aside from current personal income, is estimated at \$1,500 million for 1953—9 per cent of personal disposable income. It constituted 31 per cent of total saving from all sources compared with 30 per cent in 1952. Excluding the change in farm inventories, the increase in personal saving was even more noteworthy, being about 26 per cent greater than in 1952. As noted above, this is closely related to increased expenditure on residential housing and to the continuing growth in contractual saving.

About two thirds of the reduction in government saving was the result of a further decline in the federal surplus, as adjusted for National Accounts purposes.

Business saving is comprised for the most part of amounts set aside for depreciation and of undistributed profits. There was an estimated increase of about 11 per cent in depreciation allowances. Undistributed profits depend not

TABLE 6
DISPOSITION OF SAVING

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
Gross domestic investment—				
Housing, plant and equipment.....	3,216	3,810	4,265	4,701
Change in inventories.....	960	1,620	241	585
Net increase in foreign assets (including foreign exchange) adjusted ¹	-330	-524	166	-466
Residual error of estimate ²	+2	+66	-107	-30
Total.....	3,848	4,972	4,565	4,790

¹ Minor adjustments have been made to the figures appearing in Table 11.

² See Tables 1 and 2.

only upon the level of profits but upon taxes and dividend payments as well. The preliminary estimate of corporation profits before taxes indicates a reduction of a little more than 3 per cent for 1953 and this carries the decline in corporate profits, which began in 1952, to about 9 per cent. This decrease in profits has accompanied more normal conditions of supply and demand with a comparatively stable price level. During 1953 there was, however, a substantial drop in corporation taxes because of the reduction in tax rates, so that there has been some increase in the amount of corporation profits after taxes. In addition, it is estimated that dividends paid out were somewhat lower than in 1952, so that some increase in undistributed profits is indicated.

It is estimated that our total payments abroad on current account exceeded our total receipts from abroad by about \$466 million and there was, therefore, an increase of like amount in our net foreign liabilities. This was in sharp contrast to 1952 when current receipts from abroad exceeded current payments by \$166 million. The movement from a surplus to a deficit in current foreign transactions was much more the result of increased imports than of decreased exports. Imports in 1953 were 9 per cent greater than in 1952 while

TABLE 7
CORPORATION PROFITS, TAXES AND DIVIDENDS

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
Corporation profits before taxes ¹	2,506	2,810	2,640	2,550
Deduct corporation taxes ²	-981	-1,429	-1,333	-1,174
Corporation profits after taxes.....	1,525	1,381	1,307	1,376
Deduct dividends paid out ³	-681	-660	-634	-613
Undistributed corporation profits ⁴	844	721	673	763

¹ Includes depletion charges and is adjusted for losses, and for conversion to a calendar year basis.

² Taxes paid or payable in respect of the calendar year's income. (See Table 10).

³ Includes charitable contributions made by corporations. (See Table 3 Item 6 (b)).

⁴ See Table 5.

exports were about 3 per cent less. Thus although the level of domestic saving was very high, the nation's expanding requirements were financed to a limited extent by capital inflows from abroad, particularly from the United States. These transactions are treated more fully in the section on the balance of international payments.

INVESTMENT AND CAPITAL EXPENDITURE

It is estimated that investment in plant, equipment and housing amounted to \$4,701 million in 1953 and constituted 19 per cent of gross national expenditure compared with 18 per cent in 1952. The increase for the year was \$436 million, 10 per cent in terms of value and 8 per cent in terms of volume. There was a large increase in residential housing which rose by \$276 million or 35 per

TABLE 8
GROSS DOMESTIC INVESTMENT

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
Housing, plant and equipment—total ¹	3,216	3,810	4,265	4,701
New residential construction.....	801	781	786	1,062
Other new construction.....	1,026	1,260	1,561	1,719
New machinery and equipment.....	1,389	1,769	1,918	1,920
Change in inventories—total.....	960	1,620	241	585
Grain in commercial channels ²	60	—	92	145
Farm grain and livestock ²	131	354	237	64
All other inventories ³	769	1,266	—83	376
Gross Domestic Investment⁴.....	4,176	5,430	4,506	5,286

¹ Includes private businesses and institutions, and publicly owned public utilities.

² Value of physical change.

³ Change in value. Includes privately financed industrial and trade inventories.

⁴ See Table 2, Item 3 and footnote to Table 9, p. 15.

cent in value and 33 per cent in volume. The 1953 volume of housing expenditure was about 11 per cent above the previous record level reached in 1950. Non-residential construction, which had shown the largest gain in 1952, rose more moderately in 1953 with an increase of 10 per cent in value and 6 per cent in volume. The estimates indicate that the value and volume of new investment in machinery and equipment were in aggregate practically unchanged from 1952. Declines in investment in farm machinery were offset by gains in trade, finance and commercial services. It should be noted also that while new investment in machinery and equipment did not expand further in 1953, it was already at high levels. Increases in investment in machinery and equipment were large in 1951 because of the expansion associated with defence preparations. In addition, there was a further although more moderate increase in 1952.

In absolute terms the most significant change in investment was the volume increase in business inventories. Whereas business inventories had remained practically constant during 1952, their volume increased in 1953 by about 5 per cent. The effect upon the economy was therefore significantly different than in 1952 when no further charge was made on the nation's productive capacity by demands for increasing inventory. The increase in inventories during 1953 was confined to the first three quarters; and the change from large inventory accumulation in the first three quarters to an inventory decline in the last quarter was

greatly in excess of the normal seasonal variation. It should be noted that the build-up of inventories in the first three quarters of the year contributed to economic activity in that period, while the withdrawal of this stimulus in the last quarter coincided with the normal seasonal slow-down and added to its effect. The increase in investment in business inventories for 1953 was somewhat larger than the increase in the volume of residential housing and together they absorbed about 65 per cent of the nation's increase in product.

PUBLIC AND PRIVATE CAPITAL EXPENDITURE

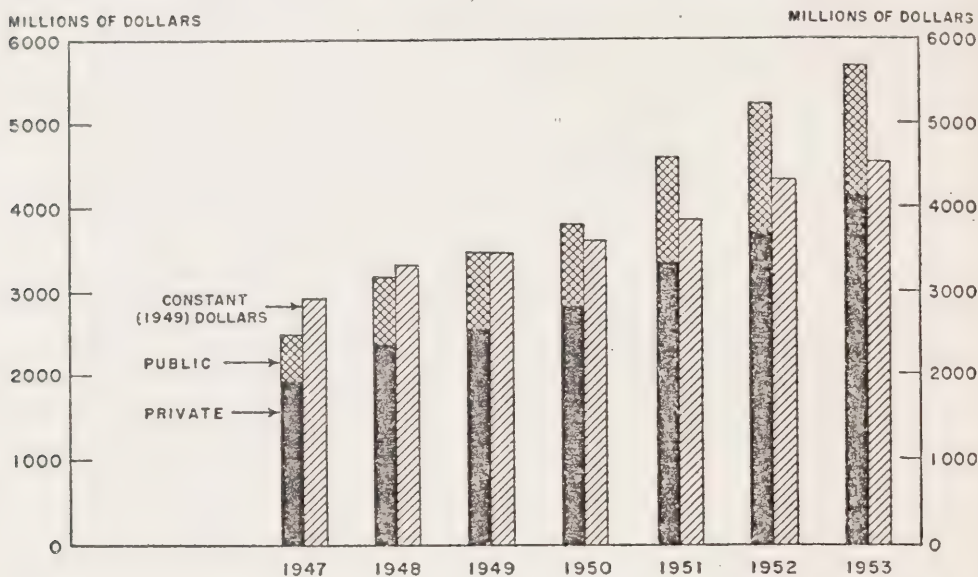


Table 9 gives an industrial distribution of business capital expenditures and brings them together with public capital outlays included under government expenditure in Table 2. The total of public and private capital expenditures increased by \$394 million or 7 per cent in 1953. In real terms the increase is estimated at about 5 per cent. This is considerably less than the rate of advance in 1952 when the effects of the increased defence preparedness programme were still in evidence. Moreover, there was a distinct difference between 1952 and 1953 in the categories in which the major increases occurred. While these had for the most part been confined in 1951 and 1952 to increased investment in heavy manufacturing associated with defence, and to the development of strategic resources, the removal of restrictions in 1953 made possible private investment in lines more directly associated with civilian needs. This is indicated by the increased expenditure on housing, commercial buildings, and on retail outlets.

During 1953 the most spectacular increase in capital investment was in the trade, finance and commercial services group, particularly in retail trade. Expansion in these services and facilities generally had not kept pace with the rather rapid growth of the Canadian economy, preponderantly urban in character. The increase in retail store facilities was the most striking. Chain stores, independent stores and department stores spent \$189 million on new facilities in

1953, an increase of \$70 million or about 60 per cent. There was some decline in capital investment of government departments and this was largely in the federal field and associated with the decline in the rate of creation of new facilities connected with the defence programme. Investment in institutions increased by \$23 million, or 8 per cent, the largest increase being in hospitals. In the utilities group there was a fairly heavy increase of 12 per cent in the capital outlays of steam railways and the bulk of this increase was in machinery and equipment. Elsewhere in the utilities group there were some declines.

In the manufacturing group, fairly substantial increases and decreases were in evidence, but the latter predominated. There was a decline of \$23 million in iron and steel products, \$30 million in paper products and \$14 million in chemicals. Food and beverage industries increased their investment by \$6 million, transportation equipment by \$31 million and non-ferrous metals industries by \$8 million.

TABLE 9
PUBLIC AND PRIVATE CAPITAL EXPENDITURE

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
Agriculture and fishing	473	515	555	537
Forestry	34	58	39	35
Mining, quarrying and oil wells	119	181	211	280
Manufacturing	502	793	973	940
Electric power, gas and water works	369	440	578	553
Transportation, storage and communications	351	460	581	615
Construction industry	71	66	73	63
Trade, finance and commercial services	397	412	344	480
Institutions	203	236	278	301
Housing	845	821	826	1,036
Government departments	446	595	827	789
Total Capital Expenditure¹	3,815	4,577	5,285	5,679
Total Capital Expenditure as a percentage of Gross National Expenditure	21.0	21.3	22.8	23.3
Index of total Capital Expenditure in Constant Dollars	100	107	119	126

¹ For reconciliation with Gross Domestic Investment in Table 8, see below

	1950	1951	1952	1953
PUBLIC AND PRIVATE CAPITAL EXPENDITURE—Table 9	3,815	4,577	5,285	5,679
DEDUCT:				
Provincial hospitals and schools, and municipal schools	-107	-130	-150	-163
Government housing excl. C.M.H.C. rental housing	-44	-40	-40	-24
Direct government department outlays	-446	-595	-827	-789
Other	-2	-2	-3	-2
ADD:				
Change in Inventories	960	1,620	241	585
TOTAL GROSS DOMESTIC INVESTMENT—Table 8	4,176	5,430	4,506	5,286

REVENUE AND EXPENDITURE OF ALL GOVERNMENTS

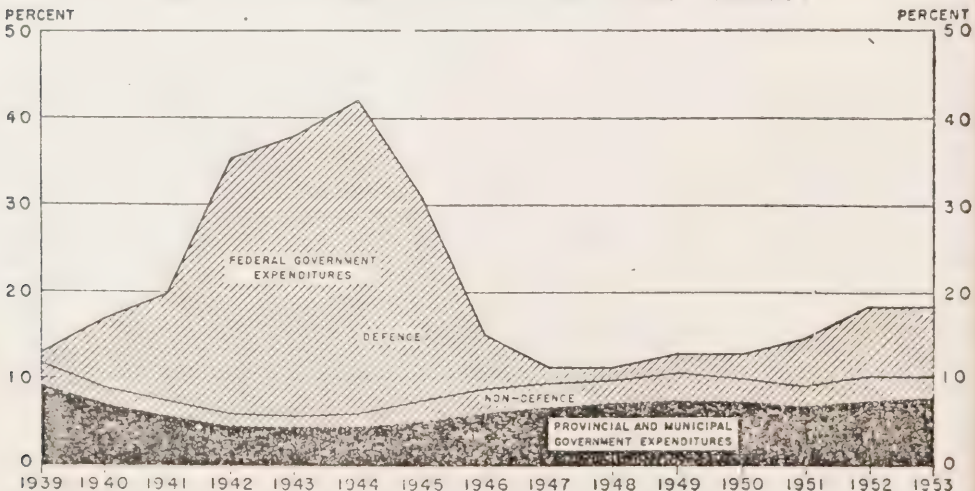
In Table 10 "Government Transactions Related to the National Accounts" an attempt is made to bring together in one statement and under uniform headings, the activities of all governments in Canada on a calendar year basis.

The table is designed to include only those transactions which have relevance for the National Accounts, and consequently the surpluses or deficits shown here differ from those shown in the various public accounts. It has been necessary to adjust the governments' accounting statements of fiscal year revenue and expenditure to exclude certain transactions such as those relating to reserves, write-offs, amortization, and other similar items, as well as the purchase and sale of existing capital assets; and to include the transactions of extra-budgetary funds such as unemployment insurance, old age security, workmen's compensation and government pension funds. Government loans and investments, and debt retirement are not included in government expenditure.

In the federal accounts, some of the more substantial adjustments are as follows: elimination of reserve for possible losses on active assets, elimination of reserve for veterans' conditional benefits, elimination of expenditures charged with respect to shipment from stocks of military equipment to NATO countries, addition of expenditures out of Defence Equipment Replacement Account, elimination of write-down of active assets to non-active account, adjustment of corporation taxes to an accrual basis, inclusion of the change in inventories of government commodity agencies and the Defence Production Revolving Fund and adjustment of interest on the public debt from an accrual to a due date basis. In addition, the federal figures are adjusted to a calendar year basis by using the monthly figures published by the Comptroller of the Treasury.

Municipalities are for the most part on a calendar year basis but the provincial figures are based on the provincial fiscal years. The 1953 figures for provincial and municipal governments involve a considerable element of estimation.

GOVERNMENT EXPENDITURES ON GOODS AND SERVICES
AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



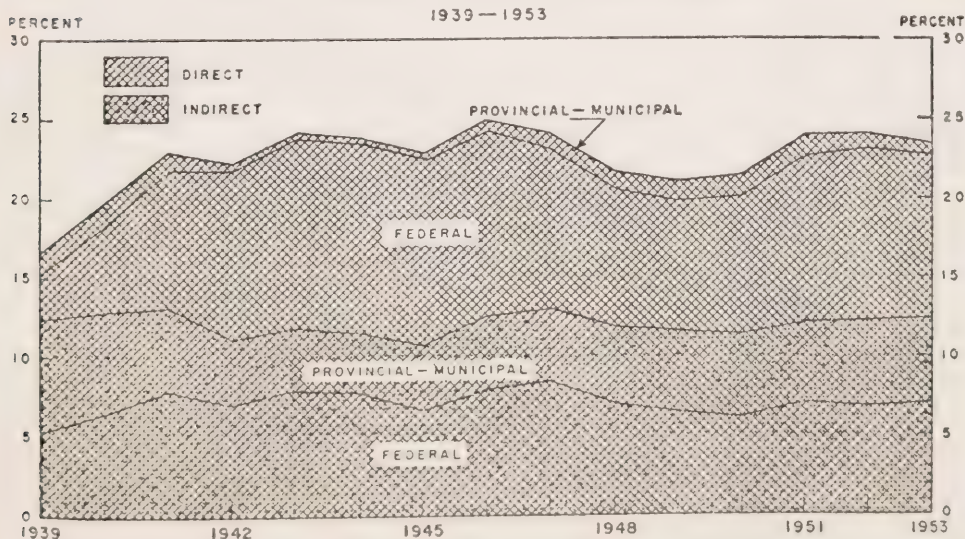
Exclusive of the change in inventories held by its agencies or departments, the federal government's expenditure on goods and services increased by \$152 million or 6 per cent in 1953 compared with an increase of \$687 million in 1952. This marked slowing down in the rate of expansion of federal government expenditure on goods and services in 1953 was the result of the levelling off in defence spending. For example, while defence expenditure rose by \$643 million or more than 55 per cent in 1952, the increase in 1953 amounted to \$109 million or a little more than 6 per cent. Nevertheless, federal defence expenditure remained a significant element in the national total, comprising about 8 per cent of gross national expenditure and about 75 per cent of the federal government's expenditure on goods and services. Federal government non-defence expenditure rose by about 7 per cent.

The increase in provincial and municipal expenditure on goods and services is estimated at \$129 million or 7 per cent compared with an increase of 13 per cent in 1952. This does not indicate any significant change in the rate of expansion of these services since price rises were a much more important factor in the 1952 increase.

The expansion in federal transfer payments was also much smaller in 1953 than it had been in 1952 so that in this area, as well as in the category of direct expenditure on goods and services, the Canadian economy received much less in the way of a forward thrust. Federal transfer payments increased by \$87 million or 6 per cent and this expansion represented in the main the more or less normal growth in family allowances, and old age pensions, together with some increase in unemployment insurance benefits.

Although federal expenditures expanded more moderately in 1953 than in 1952, there was an even smaller upward movement in revenues. There was a rise of about 9 per cent in federal personal income tax collections despite the mid-year reduction in rates which averaged about 11 per cent. The main factor in this increase was the steady rise in salaries and wages. The yield of the corporation tax declined since the effect of the 1953 tax rate reduction was compounded by some decline in profits, the base upon which the tax is levied.

GOVERNMENT DIRECT AND INDIRECT TAXATION
AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



Direct taxes include taxes on personal and corporate income; succession duties, and personal fees.
Indirect taxes include taxes on commodities, services and real property, and business fees.

TABLE 10
GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
GOVERNMENT REVENUE—				
Direct Taxes—Persons.....	740	1,030	1,323	1,432
Income—				
Federal.....	612	890	1,177	1,287
Provincial and Municipal.....	.....	.....	.....	.....
Succession Duties—				
Federal.....	35	35	39	40
Provincial.....	31	34	33	33
Miscellaneous—				
Federal.....	7	6	7	1
Provincial and Municipal.....	55	65	67	71
Direct Taxes—Corporations.....	981	1,429	1,333	1,174
Income—				
Federal.....	835	1,240	1,232	1,107
Provincial.....	146	189	101	67
Other Direct Taxes—				
Withholding taxes—Federal.....	54	56	55	54
Indirect Taxes.....	2,081	2,606	2,843	3,017
Federal.....	1,115	1,495	1,595	1,697
Provincial and Municipal.....	966	1,111	1,248	1,320
Investment Income.....	400	453	529	552
Federal.....	134	164	214	219
Provincial and Municipal.....	266	289	315	333
Employer and Employee Contributions to Social Insurance and Government Pension Funds.....	256	329	357	386
Federal.....	159	214	230	253
Provincial and Municipal.....	97	115	127	133
Transfers from Other Governments—				
Provincial and Municipal.....	251	250	368	412
Total Revenue.....	4,763	6,162	6,808	7,027
Federal.....	2,951	4,100	4,549	4,658
Provincial and Municipal.....	1,812	2,062	2,259	2,369
Deficit (or surplus—)	-648	-1,049	-273	-136
Federal ¹	-640	-1,039	-216	-123
Provincial and Municipal.....	-8	-10	-57	-8
Total Revenue plus Deficit (or minus Surplus)...	4,115	5,113	6,535	6,891
Federal.....	2,311	3,061	4,333	4,530
Provincial and Municipal.....	1,804	2,052	2,202	2,361

¹ For reconciliation with Public Accounts Surplus, see page 19.

TABLE 10—Concluded

GOVERNMENT TRANSACTIONS RELATED TO THE NATIONAL ACCOUNTS

	1950	1951	1952	Prelim. 1953
	(Millions of Dollars)			
GOVERNMENT EXPENDITURE—				
Goods and Services.....	2,326	3,243	4,223	4,408
Federal—				
Defence.....	493	1,157	1,800	1,909
Non-defence.....	487	537	669	610
Provincial and Municipal.....	1,346	1,549	1,754	1,883
Transfer Payments.....	1,475	1,483	1,845	1,962
Federal.....	1,020	984	1,400	1,487
Provincial and Municipal.....	455	499	445	475
Subsidies.....	63	128	99	109
Federal.....	60	124	96	106
Provincial and Municipal.....	3	4	3	3
Transfers to Other Governments—				
Federal.....	251	259	368	412
Total Expenditure.....	4,115	5,113	6,535	6,891
Federal.....	2,311	3,061	4,333	4,530
Provincial and Municipal.....	1,804	2,052	2,202	2,361

	1950	1951	1952	1953
	(Millions of Dollars)			
Reconciliation with Public Accounts Surplus:				
Federal Government calendar year surplus for national accounts purposes.....	640	1,039	216	128
Adjustments:				
Difference between calendar and fiscal year.....	-122	-300	+367	+24
Difference between corporation tax accruals and government receipts.....	-140	-161	-8	+130
Revenue items omitted.....	+73	+67	+49	+91
Reserves, write-offs and similar items omitted from expenditure.....	-130	-167	-195	-136
Change in inventories of government commodity agencies.....	-19	-16	+72	-24
Shipment of military equipment to NATO countries, less replacement.....	-57	-70	-95	-57
Extra-budgetary funds for pensions and social insurance (net).....	-56	-144	+27	-30
Adjustment to place debt interest on a "due date" basis.....	.....	.....	-90	-14
Other adjustments.....	-58	-37	-95	-88
Federal surplus for fiscal year as per public accounts.....	+131	+211	+248	+24
	(1949-50)	(1950-51)	(1951-52)	(1952-53)

Federal indirect taxes increased by \$102 million or 6 per cent. Almost half of this increase was in customs duties, since the yields from these levies reflected the substantial increase in imports. At the same time the generally high and rising levels of income and spending resulted in a considerable growth in the yield from sales and excise taxes.

Provincial and municipal indirect taxes increased by about 6 per cent. At the provincial level, increased revenue from gasoline taxes accounted for two-thirds of the increase and there was also some increase in the yield of provincial sales taxes.

There was a moderate increase in the importance of indirect taxes in the country as a whole. Thus, for all levels of government combined, indirect taxes exceeded direct taxes by some 13 per cent in 1953 compared with only 5 per cent in 1952.

As indicated above, the moderate expansion in federal expenditure during 1953 was not matched by the rise in revenues so that the federal surplus as adjusted for National Accounts purposes declined by \$88 million. During 1952 the greater part of the very large increase in federal expenditure was financed by a reduction from the previous year's level of surplus rather than by revenue increases although the latter were substantial. In 1953 however the further reduction in the surplus was more moderate and the over-all effect of government revenue and spending was, therefore, more neutral despite their higher level. Since revenues and expenditures moved closer to balance, government saving became a negligible factor in the nation's total. The federal surplus was the smallest since 1946. The combined surplus of all provincial and municipal governments is estimated to have declined by about \$50 million with revenues and expenditures in approximate balance.

The federal surplus shown for National Accounts purposes differs substantially from the public accounts surplus, not only because of the difference between the calendar and fiscal year, but because of other adjustments made to both revenues and expenditures to make the presentation consistent with figures shown for other sectors of the economy. A reconciliation table has, therefore, been appended to the government table which summarizes the major adjustments.

BALANCE OF INTERNATIONAL PAYMENTS

Canada's balance of payments position in 1953 differed in several respects from the position in 1952. The upward trend in the physical volume of imports which became evident in the last half of 1952 continued into 1953 and for the year as a whole, merchandise imports showed a volume increase of about 9 per cent over the previous year. At the same time, the volume of merchandise exports declined by a little more than 1 per cent from the record levels of 1952 and the terms of trade, or the ratio of import prices to export prices, showed some slight deterioration. As a result there was an import surplus of \$55 million in 1953 compared with an export surplus of \$491 million in 1952. This change in the merchandise trade balance was the major factor in the movement from a current account surplus of \$157 million in 1952 to an estimated deficit of some \$467 million in 1953.

Merchandise imports rose to \$4,207 million in 1953, an increase of \$361 million or 9 per cent over 1952. This increase in imports was a reflection of the high levels of investment, industrial activity and consumer spending which characterized the Canadian economy in 1953. There was a significant increase in imports of farm and non-farm machinery, electrical equipment and automotive and other iron and steel products. At the same time the greater volume of imports of consumer goods such as textiles and durables reflected the strong consumer demand and increasing import competition. This stronger demand for imports was spread throughout all categories.

Merchandise exports in 1953 were \$4,152 million, down by \$185 million or about 4 per cent from 1952. The major decreases were in exports of wood pulp, zinc, automotive products and farm machinery. Increased world supplies in both importing and exporting countries reduced the market for Canadian grains; and exports of wheat, barley and oats were below the record levels of 1952, although they remained above the level of any other post-war year. The fall in prices of wood pulp and zinc had important effects on the total value of these products, while declining farm incomes in the United States and import restrictions in overseas countries affected exports of farm machinery. Newsprint showed a large gain and became Canada's leading export in 1953, while sales of pork, pork products and chemicals to the United States showed a substantial increase.

TABLE 11
BALANCE OF INTERNATIONAL PAYMENTS

ESTIMATED CURRENT ACCOUNT BETWEEN CANADA AND ALL COUNTRIES
(Millions of Canadian Dollars)

	1950	1951	1952	Prelim. 1953
CURRENT CREDITS—				
Merchandise exports (adjusted) ¹	3,139	3,950	4,337	4,152
Non-monetary gold.....	163	150	150	144
Travel expenditures.....	275	274	275	302
Interest and dividends.....	91	115	142	159
Freight and shipping.....	284	351	383	340
Inheritances and immigrants' funds.....	57	77	85	89
Other current receipts.....	231	249	301	329
Total Credits.....	4,240	5,166	5,673	5,515
CURRENT DEBITS—				
Merchandise imports (adjusted).....	3,129	4,097	3,846	4,207
Travel expenditures.....	226	280	341	365
Interest and dividends.....	475	450	413	410
Freight and shipping.....	301	354	375	390
Inheritances and emigrants' funds.....	61	70	94	90
Other current payments.....	382	432	447	520
Total Debits.....	4,574	5,683	5,516	5,982
NET BALANCE ON CURRENT ACCOUNT.....	-334	-517	+157	-467

¹ Aid to NATO countries under Defence Appropriation Act has been excluded.

ESTIMATED GEOGRAPHICAL DISTRIBUTION OF THE NET BALANCE ON CURRENT ACCOUNT
(Millions of Canadian Dollars)

	1950	1951	1952	1953 ¹
Between Canada and—				
United States.....	-400	-951	-853	-943
United Kingdom.....	+24	+223	+387	+141
Rest of the Sterling Area.....	-23	-24	+114	+85
Other OEEC Countries.....	+108	+223	+332	+255
Other Countries.....	-43	+12	+182	
All Countries.....	-334	-517	+157	-467

¹ Complete details not yet available.

Another noteworthy feature of Canadian foreign trade in 1953 was a significant change in the direction of exports. Shipments to the United Kingdom and the rest of the Commonwealth, to European countries and to Latin America declined, while exports to the United States increased. As a result, exports to the United States constituted 59 per cent of Canada's total exports compared with 54 per cent in 1952. The fall in exports to the United Kingdom mainly reflects lower sales of wood products and metals while in other overseas countries sales of wheat, barley and automotive products were also down sharply. Exchange difficulties in Brazil were a major factor in the sharp reduction of sales to Latin America.

The change in the direction of imports was less pronounced. The proportion of total imports originating in the United States was about 73 per cent and showed little change from 1952, although their value increased by more than \$200 million. Imports from the United Kingdom were greater but there was some decline in the value of imports from other parts of the Commonwealth.

Although the change in the merchandise trade balance was the major factor in the movement to a deficit on current account, the deficit on non-merchandise transactions also widened from \$334 million in 1952 to \$412 million in 1953, an increase of \$78 million. A significant part of this change arose from the settlement of costs incurred in connection with the Korean hostilities, while payments under the Colombo Plan and in connection with the North Atlantic Treaty Organization were also higher. Receipts from freight and shipping were lower while payments rose with the larger volume of imports. The usually large payments balance on dividend account declined somewhat, while the payments balance on travel account was not significantly changed.

Direct investment in Canada and net sales of new Canadian securities abroad amounted to about \$560 million in 1953. As in 1952, direct investment, tentatively estimated at \$385 million, made up the bulk of this capital inflow. Of this total, approximately three-quarters represented investment in primary industries such as petroleum and mining and related transportation facilities. Provincial and municipal borrowing in the United States accounted for about two-thirds of the new security issues. Movements of short-term and other capital, however, were closer to balance than in 1952 when there was a substantial net outflow.

BALANCE OF INTERNATIONAL PAYMENTS

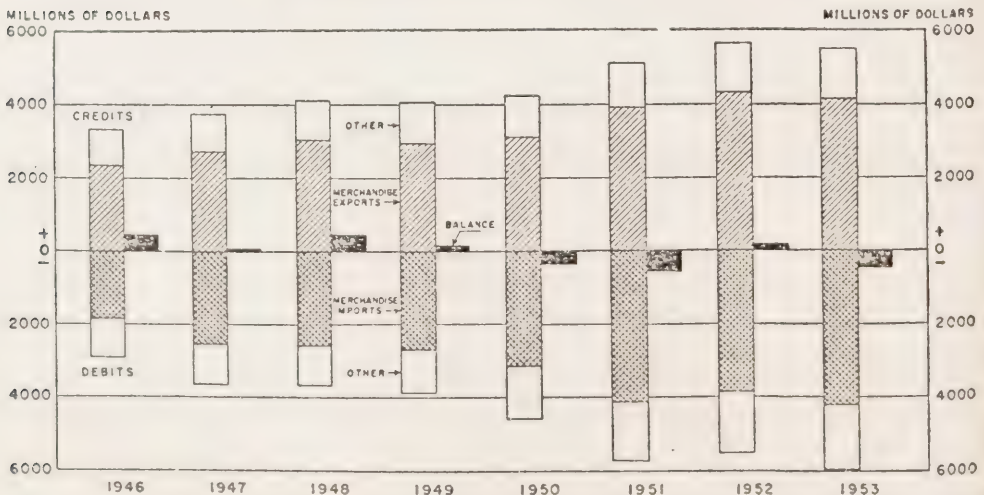


TABLE 12

CANADA'S OFFICIAL HOLDINGS OF GOLD AND U.S. DOLLARS
(Millions of U.S. Dollars)

	Exchange Fund Account and Bank of Canada		Other Government of Canada Accounts	Total
	Gold	U.S. Dollars	U.S. Dollars	Gold and U.S. Dollars
Sept. 15, 1939.....	204.9	33.8	22.4	261.1
Dec. 31, 1939.....	218.0	54.8	33.4	306.2
Dec. 31, 1940.....	136.5	172.8	20.8	330.1
Dec. 31, 1941.....	135.9	28.2	23.5	187.6
Dec. 31, 1942.....	154.9	88.0	75.6	318.5
Dec. 31, 1943.....	224.4	348.8	76.4	649.6
Dec. 31, 1944.....	293.9	506.2	102.1	902.2
Dec. 31, 1945.....	353.9	922.0	232.1	1,508.0
Dec. 31, 1946.....	536.0	686.3	22.6	1,244.9
Dec. 31, 1947.....	286.6	171.8	43.3	501.7
Dec. 31, 1948.....	401.3	574.5	22.0	997.8
Dec. 31, 1949.....	486.4	594.1	36.6 ¹	1,117.1
Dec. 31, 1950.....	580.0	1,144.9	16.6	1,741.5
Dec. 31, 1951.....	841.7	899.5	37.4	1,778.6
Dec. 31, 1952.....	885.0	961.8	13.4	1,860.2
Dec. 31, 1953.....	986.1	802.0	30.4	1,818.5

¹ Not including \$18.2 million in United States dollars borrowed by the Government of Canada in August, 1949, and set aside for the retirement on February 1, 1950, of a security issue guaranteed by it and payable at the holder's option in United States dollars.

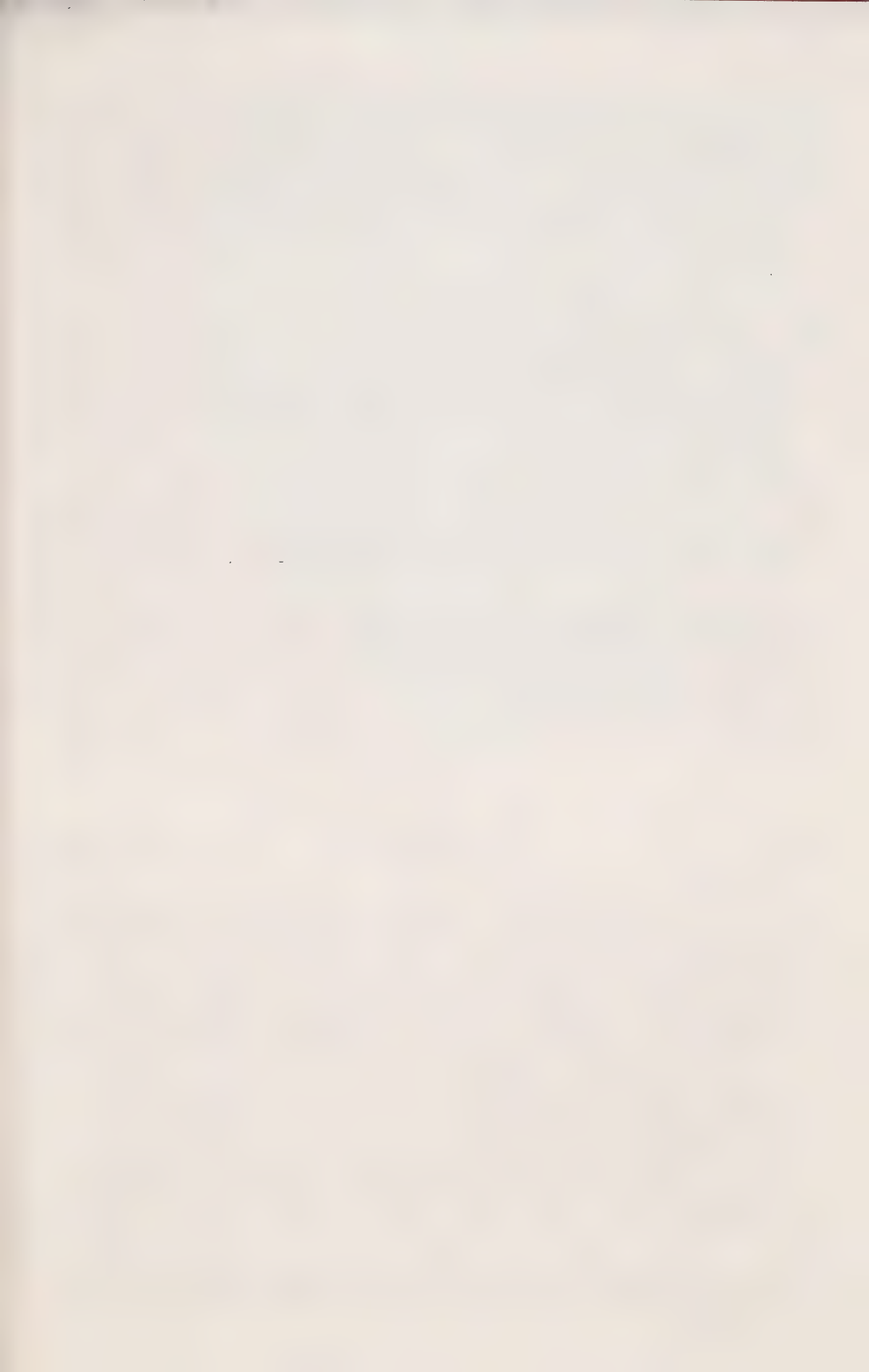
There was therefore, a net inward movement of capital, which balanced the deficit on current account without any great change in either the level of official exchange reserves or the external value of the Canadian dollar.

Official reserves of gold and United States dollars were \$1,860 million at December 31, 1952, and \$1,818 million at December 31, 1953.

A moderate upward trend in the value of the Canadian dollar over the last half of 1953 contrasted with the slow decline evident in the first half of the year. The range, however, was relatively narrow, the United States dollar having moved between \$0.968 to \$0.998 in the first six months of 1953 and between \$0.994 and \$0.970 in the last six months. At December 31, 1953, the United States dollar was \$0.974 in terms of the Canadian dollar compared with \$0.970 at December 31, 1952.

CAPITAL MOVEMENTS	(Millions of Dollars)			
	1950	1951	1952	Prelim. 1953
Loans to United Kingdom and other governments—				
Drawings.....	-50	—	—	—
Repayments.....	+74	+68	+56	+87
Net reduction in the U.S. dollar debt of the Govern- ment of Canada (expressed in U.S. dollars).....	-50	—	—	-75
Increase (—) in official reserves of gold and U.S. dollars (expressed in U.S. dollars).....	-624	-37	-82	+42
Other capital, including exchange adjustments, errors and omissions.....	+084	+486	-131	+413
Total ¹	+334	+517	-157	+467

¹ Equal in size but opposite in sign to net balance on current account.



EMPLOYMENT AND EARNINGS

Wages and salaries, inclusive of military pay and allowances, are estimated to have reached the record total of \$11,962 million for 1953, a gain of \$900 million or more than 8 per cent over the previous year. The level of labour income did not, however, advance appreciably beyond the level attained in the second quarter of the year. The seasonally adjusted quarterly figures show a moderate rise of 2 per cent in both the first and second quarters with very little further increase in the third and fourth quarters. This is in sharp contrast to the year 1952 when the nation's payroll continued to rise throughout the year and was 7 per cent higher in the fourth quarter than it had been in the first.

As in 1952, this rise in money income resulted in a substantial gain in real income or purchasing power since prices were comparatively stable. For the two years 1952 and 1953, the rise in labour income has been about 21 per cent while the consumer price index has increased by less than 2 per cent and the number of paid workers by 6 per cent. 1953 was the second successive year in which the proportion of national income accruing to labour showed a substantial increase. Thus, labour income constituted 63 per cent of national income in 1953 compared with 61 per cent in 1952 and 58 per cent in each of the years 1950 and 1951.

The increase in labour income was common to all the broad industrial categories with the exception of the primary industries. The largest increase was in the construction industry where the total wages and salaries paid exceeded the 1952 aggregate by 12 per cent but this gain did not approach the expansion of 21 per cent recorded in the previous year. Earnings in the other main groups, including manufacturing, utilities, trade, finance and other services, increased in about the same proportion as the overall gain in labour income, that is, in the range of some 8 to 9 per cent. On the other hand, labour income in the primary industries showed a decline of some 3 per cent, largely because of a decline in income from logging activities.

TABLE 13
THE CIVILIAN LABOUR FORCE

ANNUAL AVERAGES¹
(Thousands of Persons)

	1950 ²	1951 ²	1952 ²	1953
Civilian Labour Force.....	5,106	5,160	5,257	5,325
Male.....	4,006	4,026	4,091	4,152
Female.....	1,100	1,134	1,166	1,173
Non-Agricultural.....	4,094	4,227	4,371	4,472
Agricultural.....	1,012	933	886	853
Persons without jobs and seeking work.....	164	104	128	136
Persons with jobs.....	4,942	5,056	5,129	5,189
In Non-Agricultural Industries.....	3,935	4,126	4,247	4,340
Paid Workers.....	3,394	3,596	3,731	3,811
Employers, own account workers and unpaid family workers.....	541	530	516	529
In Agriculture.....	1,007	930	882	849
Paid workers.....	107	98	110	112
Employers, own account workers and unpaid family workers.....	900	832	772	737

¹ Average of the quarterly labour force surveys in 1950, 1951 and 1952 and of the monthly surveys in 1953.

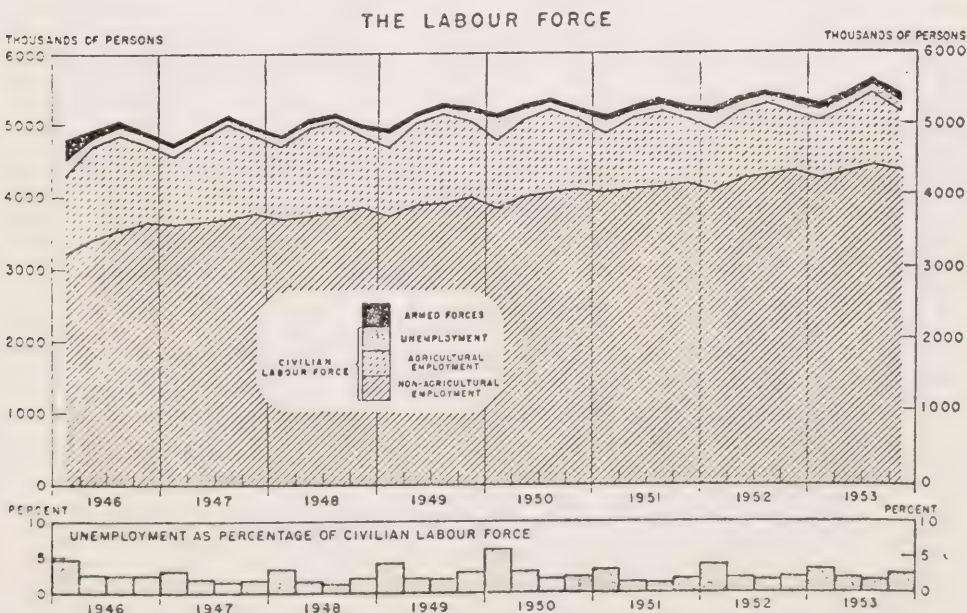
² Revised.

During 1953 there was an increase of 82,000 in the number of paid workers. Thus, the 8 per cent rise in labour income amounted to about 6 per cent when calculated on the basis of earnings per worker. The annual average earnings per paid worker rose by about \$160 to \$2,970. As in the previous year, this increase was possible because higher hourly rates of pay more than offset the effect of a fractionally shorter working week. In 1953, hours worked in manufacturing averaged 41.3 per week compared with 41.5 a year earlier, while hourly rates of pay rose from \$1.32 in December, 1952, to \$1.38 in December, 1953.

Employment conditions improved in the first three quarters of the year 1953. However, this improvement was not maintained at year-end and in the latter months of the year there was a decline from the very high levels of employment which had characterized 1953 up to that time. This was in contrast to the experience of 1952 in which, partly because of abnormally favourable climatic conditions, employment conditions had been very satisfactory at year-end although the beginning of the year was marked by some hesitation.

In addition to the increase in the number of persons with jobs in the first three quarters of 1953, there was, as in 1952, a decline in the number of persons working short-time. The number of persons working short-time averaged 91,000 less than in 1952 with the principal improvement in this regard occurring in the first two or three quarters of the year.

Persons without jobs and seeking work averaged 136,000 in 1953 compared with 128,000 in 1952. In both years the figure amounted to 2.5 per cent of the labour force. For the greater part of 1953 unemployment was lower than in 1952. However, the number of persons without jobs and seeking work rose to 190,000 in December, 1953, compared with 131,000 for the same month in 1952. This trend continued into January and February of 1954, in which months the figures stood at 280,000 and 312,000 respectively, or 93,000 and 133,000 above the levels of the comparable months in 1953.



To some extent the increased unemployment has been due to more severe climatic conditions than those which obtained in the exceptionally open winter months of 1952-53. At the same time, however, certain changes have been taking place in the economy, as receding inflationary forces allowed increased competition to make itself felt in a number of industries. Thus, while by far the largest share of the increased unemployment was accounted for by construction, logging and lumbering activities, widely scattered increases were noted in almost all fields, with clerical, transportation, metal-working, textile, and miscellaneous activities being the groups most particularly affected.

The civilian labour force, which includes both the employed and the unemployed, averaged 5,325,000 for 1953, an increase of 68,000, or a little more than 1 per cent over 1952. This increase of 68,000 in the labour force was accompanied by a rise of 60,000 in average employment. The number of persons employed in non-agricultural industry continued to rise while the number of those with jobs in agriculture is estimated to have declined by 33,000 in 1953. This compares with the previous year's decline of 48,000 in the number of agricultural workers and marks a continuation of the shift from rural to urban occupations.

In addition to the civilian labour force there were 106,000 men and women in the Armed Forces in 1953, compared with 98,000 in 1952. The percentage of the non-institutional civilian population over 14 years of age in the civilian labour force continued to decline slightly, and was 53.1 per cent in 1953 compared with 53.4 per cent in 1952.

During 1953 industrial disputes were much less prevalent than in the preceding year; the total of 1,322,900 working days lost in this way was less than half the 2,880,000 man working days lost in 1952.

PRICE TRENDS

Canadian prices were remarkably stable during 1953, with neither the consumer price index nor the index of wholesale prices moving more than 1 per cent from its 1953 average. The consumer price index has, in fact, shown little variation since May, 1952, by which time it had receded from the post-war and post-Korean high point reached in January of that year. Similarly, the wholesale price index has been practically unchanged since September, 1952, by which time the sharp fall from its July, 1951 peak had come to a halt. Yet despite this stability the yearly averages of both indices were slightly lower in 1953 than they had been in 1952.

The 1953 average of the consumer price index was 115.5, 1 point below the 1952 figure. This was the first time since before the war that a decline from the previous year's average had been recorded. The movement of the index during the year was in a very narrow range, touching a low point of 114.4 in May, and reaching a high for the year of 116.7 in October. These changes were mainly in response to variations in the food component of the index which moved in a range of more than 5 points and averaged 112.6 against 116.8 in 1952. The other components of the index fluctuated but little during the year; and in general the experience of 1953 was similar to that of 1952 in that prices of rents and other services moved in an upward direction while the prices of

CANADIAN WHOLESALE AND CONSUMER PRICE INDEXES

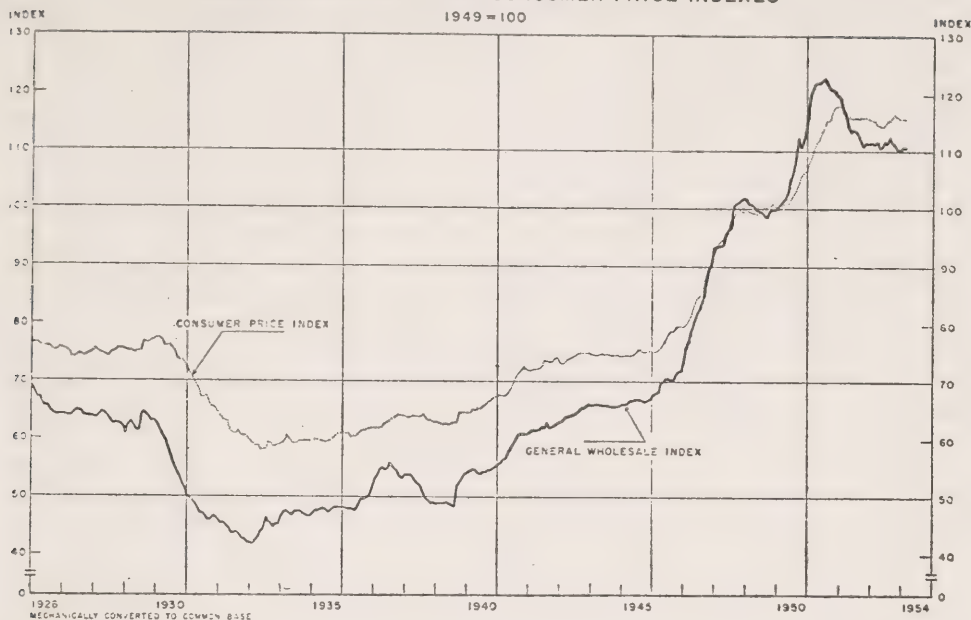


TABLE 14
WHOLESALE PRICE INDEXES
(1935-39=100)

	General Wholesale Prices	Fully and Chiefly Manu- factured Goods	Canadian Farm Products
1939.....	99.2	101.9	92.6
1940.....	103.0	109.9	96.1
1941.....	116.4	118.8	106.6
1942.....	123.0	123.7	127.1
1943.....	127.9	126.9	145.4
1944.....	130.6	129.1	155.3
1945.....	132.1	129.8	166.4
1946.....	138.9	138.0	179.5
1947.....	163.3	162.4	192.2
1948.....	193.4	192.4	232.1
1949.....	198.3	199.2	228.7
1950.....	211.2	211.0	236.7
1951.....	240.2	242.4	268.6
1952.....	226.0	230.7	250.2
1953.....	220.8	229.1	219.5
1953—January.....	221.5	229.0	234.0
February.....	220.9	228.8	229.9
March.....	221.9	229.2	228.1
April.....	219.6	227.9	221.7
May.....	220.1	228.3	224.2
June.....	221.7	230.4	226.6
July.....	221.2	229.6	226.5
August.....	222.4	230.1	213.6
September.....	221.5	230.2	208.9
October.....	220.7	230.0	208.5
November.....	218.8	228.1	204.9
December.....	219.0	227.6	206.8
1954—January.....	219.8	227.8	209.4
February.....	219.0	227.3	208.8

Note: 1953 Indexes are preliminary. The Canadian Farm Products index is revised up to July but reflects initial rather than final payments for subsequent months.

foods tended to be lower. The notable stability of the consumer price index continued into the first two months of 1954, in both of which the index stood fractionally lower than its year-end figure of 115.8.

In contrast with the Canadian experience, the United States consumer index averaged slightly more in 1953 than it had in 1952. American food prices declined by an amount comparable to the decline in Canada, and clothing prices were practically unchanged, but this was more than offset by rises in the rent and other components of the index.

The Canadian index of wholesale prices declined for the second consecutive year in 1953, although the fall was less than half as great as the 6 per cent drop recorded in 1952; the average of 220.8 in 1953 was 2.3 per cent below the 1952 figure of 226.0. The general tendency during the year was for primary commodities to show the sharpest price decreases, with processed items declining only fractionally. Thus, the index of raw and partly manufactured products fell by 2.7 per cent from its previous year-end figure, while the index of fully and chiefly manufactured goods was practically unchanged.

Most product components of the index were at lower average levels in 1953 than in 1952, with the decline in the price of textile products being rather more noticeable than those of other groups. Two exceptions to the general trend were iron and its products, prices of which remained firm during the year, and the non-metallic minerals group, which rose slightly, reflecting higher prices for sulphur, cement, plate glass, and petroleum products.

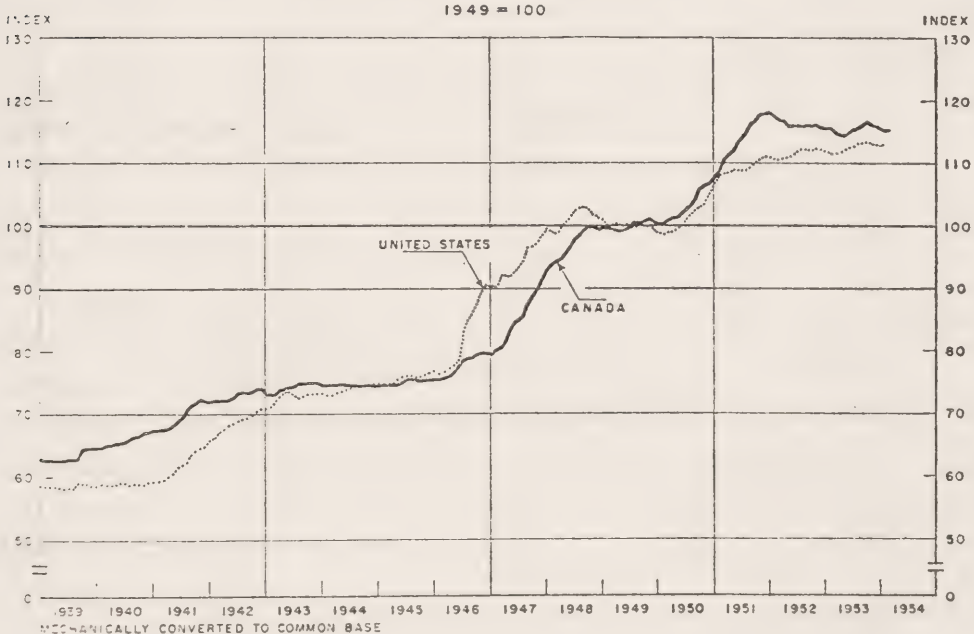
TABLE 15
CONSUMER PRICE INDEXES

—	CANADA		UNITED STATES	
	Total	Food	Total	Food
	1949=100		1947-49=100	
1939.....	63.2	50.2	59.4	47.1
1940.....	65.7	52.6	59.9	47.8
1941.....	69.6	57.9	62.9	52.2
1942.....	72.9	63.4	69.7	61.3
1943.....	74.2	65.2	74.0	68.3
1944.....	74.6	65.5	75.2	67.4
1945.....	75.0	66.3	76.9	68.9
1946.....	77.5	70.0	83.4	79.0
1947.....	84.8	79.5	95.5	95.9
1948.....	97.0	97.5	102.8	104.1
1949.....	100.0	100.0	101.8	100.0
1950.....	102.9	102.6	102.8	101.2
1951.....	113.7	117.0	111.0	112.6
1952.....	116.5	116.8	113.5	114.6
1953.....	115.5	112.6	114.4	112.8
1953—January.....	115.7	113.5	113.9	113.1
February.....	115.5	112.7	113.4	111.5
March.....	114.8	111.6	113.6	111.7
April.....	114.6	110.9	113.7	111.5
May.....	114.4	110.1	114.0	112.1
June.....	114.9	111.4	114.5	113.7
July.....	115.4	112.7	114.7	113.8
August.....	115.7	112.8	115.0	114.1
September.....	116.2	114.0	115.2	113.8
October.....	116.7	115.5	115.4	113.6
November.....	116.2	113.4	115.0	112.0
December.....	115.8	112.1	114.9	112.3
1954—January.....	115.7	111.6	115.2	113.1
February.....	115.7	111.7	—	—

Despite the steadiness of the general price level, prices of individual commodities showed somewhat more variation in 1953 than they have in recent years. Demand, although still strong, became more selective, while at the same time shortages ceased to be the rule on the supply side. Relative, rather than general, demand and supply conditions became more important in the year just ended, and many commodity prices moved in opposite directions during the year. On the higher side were pork and pork products, cocoa, coffee, pig-iron, and copper, while beef, rubber, steel scrap, lead, and zinc were among those which moved lower.

The over-all stability of the index of wholesale prices in Canada in 1953 was closely matched by the experience of the United States and the United Kingdom. Wide variations in individual commodity prices, and a tendency for the index as a whole to move somewhat lower, were noticeable in all three countries during the year.

CONSUMER PRICE INDEXES



PART II

REVIEW OF GOVERNMENT ACCOUNTS 1953-54

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PART II

REVIEW OF GOVERNMENT ACCOUNTS

1953-54

1. INTRODUCTION

Although the Government's fiscal year ended on March 31, the figures which are presented in this Part must be regarded as preliminary and subject to revision for the books must remain open for several weeks in order to record various adjusting entries and to take into account all payments up to and including April 30 made on account of expenditures originating in and properly chargeable to the fiscal year 1953-54. Consequently it is to be expected that the final figures when they become available next August will show some variations from those given in the following pages.

2. HIGHLIGHTS OF GOVERNMENTAL FINANCIAL OPERATIONS DURING 1953-54

The budgetary revenues of the Government for the fiscal year ended March 31, 1954 are now estimated at \$4,400 million. This is \$73 million or about $1\frac{1}{2}$ per cent less than the amount of \$4,473 million forecast in last year's budget speech and approximately \$39 million more than the total collected in the preceding year.

Budgetary expenditures are estimated at \$4,390 million, which is \$72 million or $1\frac{1}{2}$ per cent less than the budget forecast and about \$53 million more than the total spent in 1952-53.

On the basis of these figures the indicated surplus is about \$10 million compared with the budget forecast of \$11 million for the year and with \$24 million for the fiscal year ended March 31, 1953.

On the revenue side of the Government's budgetary operations, the most significant feature was the continued buoyancy of the revenues, which despite the tax reductions announced in the 1953 budget, were the largest on record. Direct taxes, which include personal and corporation income taxes declined by \$35 million, but this decrease was more than offset by increases of \$47 million in indirect taxes (due largely to excise taxes and customs import duties) and of \$37 million in non-tax revenues.

On the expenditure side, the most noteworthy feature was the continued importance of defence in the Government's expenditure programme. In 1953-54, defence expenditures were \$1,890 million or approximately 43 per cent of the total budgetary expenditures for the year. This is approximately \$82 million or about 4 per cent less than the corresponding total in the preceding year when defence expenditures constituted 45 per cent of the Government's total budgetary outlay.

Although the budgetary surplus was \$10 million, the Government made loans, advances and other non-budgetary disbursements of about \$429 million, and at the same time reduced the amount of its unmatured funded debt outstanding in the hands of the public by approximately \$273 million. The manner in which this has been achieved can be understood more readily by taking an over-all view of the Government's cash transactions for the fiscal year.

As explained in the section on "The Cash Position", the budgetary surplus of \$10 million for the fiscal year does not measure the full impact of Government operations in 1953-54 upon the Canadian economy. Substantial sums were received and paid out for extra-budgetary purposes, such as the loans and advances which the Government is authorized to make and the transactions in connection with the many insurance, pension, annuity and deposit and trust accounts which it is required or has undertaken to hold or administer.

These non-budgetary disbursements are estimated at \$429 million and include \$146 million invested in or loaned to the Canadian National Railways for capital expenditures on additions and betterments and the acquisition of new rolling stock and equipment, \$93 million advanced to Central Mortgage and Housing Corporation for house construction and for housing loans, and \$45 million loaned to the Old Age Security Fund to finance pension payments out of the Fund which were not covered by old age security tax receipts. More than offsetting these are non-budgetary receipts and credits amounting to \$811 million of which the two principal items were \$446 million from the repayment of sundry loans and investments (of which \$147 million represents the repayment by the C.N.R. of government loans out of the proceeds of the \$200 million loan to the public which was issued early in 1954); and \$365 million from net annuity, pension and other liability account receipts.

After taking into account the budgetary surplus of \$10 million and the net balance of \$383 million available from non-budgetary transactions, \$393 million was available for debt reduction. Unmatured funded debt in the hands of the public decreased by approximately \$273 million during the year, and the Government's year end cash balances increased by \$120 million.

3. THE BUDGETARY ACCOUNTS

Total revenues, at \$4,400 million for 1953-54, were \$39 million over the total for 1952-53. Total expenditures at \$4,390 million were \$53 million more than in the previous fiscal year. The surplus for the fiscal year was \$10 million as compared with a surplus of \$24 million for 1952-53.

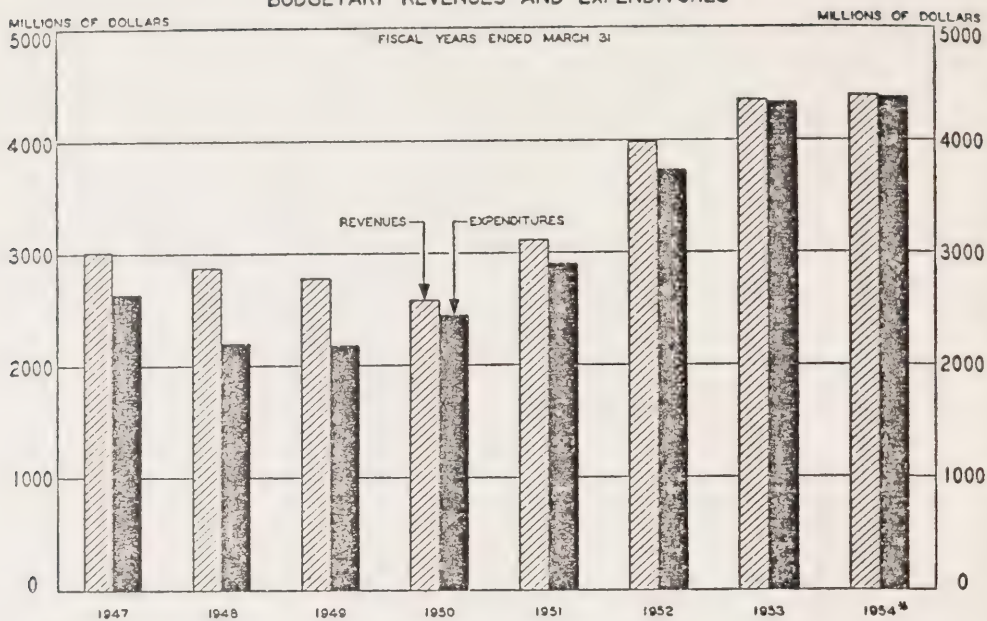
A summarized statement of the estimated revenues and expenditures and surplus for the fiscal year ended March 31, 1954, with the actual figures for the fiscal years ended March 31, 1947 to 1953, inclusive, is given in the following table:

TABLE I
BUDGETARY REVENUES, EXPENDITURES AND SURPLUS FOR THE FISCAL YEARS ENDED
MARCH 31, 1947 TO 1954 INCLUSIVE

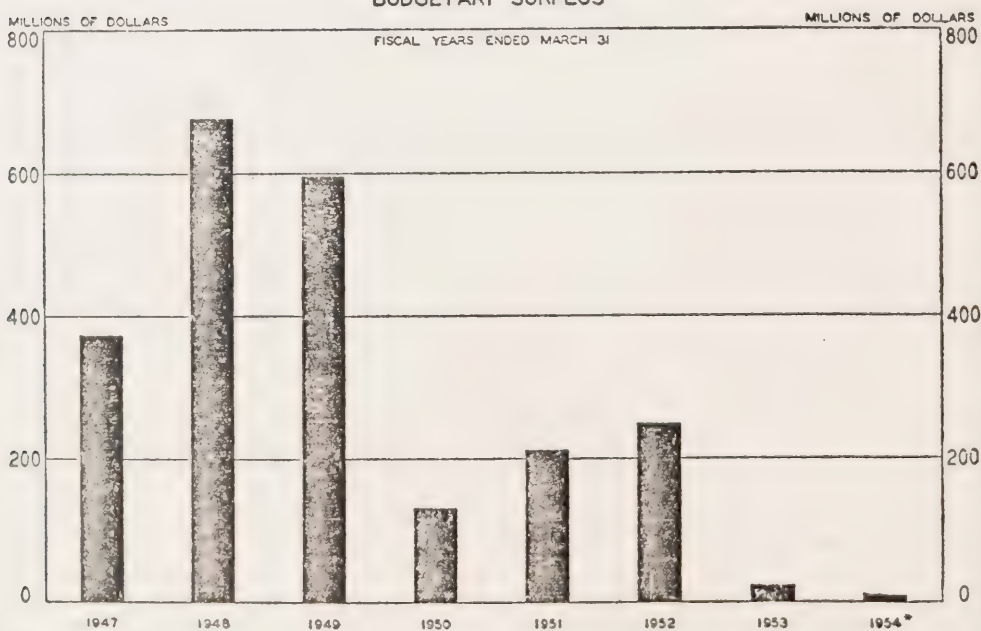
(In millions of dollars)

Fiscal Year Ended March 31	Budgetary Revenues	Budgetary Expenditures	Surplus
1947.....	3,007.9	2,634.2	373.7
1948.....	2,871.7	2,195.6	676.1
1949.....	2,771.4	2,175.9	595.5
1950.....	2,580.1	2,448.6	131.5
1951.....	3,112.5	2,901.2	211.3
1952.....	3,980.9	3,732.9	248.0
1953.....	4,360.8	4,337.3	23.5
1954 (Estimated).....	4,400.1	4,390.0	10.1

BUDGETARY REVENUES AND EXPENDITURES



BUDGETARY SURPLUS



A. ANALYSIS OF REVENUES

Total budgetary revenues amounted to \$4,400.1 million in the fiscal year 1953-54 and were \$39.3 million or about 1 per cent higher than the previous record of \$4,360.8 million received in 1952-53. Of the total revenues for the fiscal year \$2,476.7 million or 56.3 per cent were derived from direct taxes, \$1,532.3 million or 34.8 per cent from indirect taxes and the remaining \$391.1 million or 8.9 per cent from non-tax revenues and special receipts and credits.

A statement of estimated revenues for 1953-54 classified by major categories, and the corresponding actual figures for 1952-53 is given in Table II.

TABLE II

STATEMENT OF BUDGETARY REVENUES BY MAJOR CLASSIFICATIONS FOR THE FISCAL YEARS
ENDED MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

Source	Fiscal Year Ended March 31				Increase or Decrease (—)	
	1954 (Estimated)		1953		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
Ordinary revenues—						
Direct taxes—						
Personal income tax*.....	1,189.3	27.0	1,180.0	27.1	9.3	0.8
Taxes on interest, dividends, etc., going abroad.....	54.0	1.2	53.7	1.2	0.3	0.6
Corporation income tax*.....	1,193.4	27.2	1,240.1	28.4	-46.7	-3.8
Succession duties.....	40.0	0.9	38.1	0.9	1.9	5.0
Total direct taxes.....	2,476.7	56.3	2,511.9	57.6	-35.2	-1.4
Indirect taxes—						
Customs import duties.....	408.0	9.3	389.4	8.9	18.6	4.8
Excise duties.....	228.0	5.2	241.4	5.6	-13.4	-5.6
Excise taxes*.....	882.0	20.0	841.9	19.3	40.1	4.8
Other taxes.....	14.3	0.3	13.0	0.3	1.3	10.0
Total indirect taxes.....	1,532.3	34.8	1,485.7	34.1	46.6	3.1
Total tax revenues.....	4,009.0	91.1	3,997.6	91.7	11.4	0.3
Non-tax revenues—						
Post Office.....	111.5	2.5	111.9	2.6	-0.4	-0.4
Return on investments.....	147.5	3.4	116.9	2.7	30.6	26.2
Premium, discount and exchange...	3.9	0.1	1.5	.....	2.4	160.0
Other non-tax revenues.....	54.5	1.2	49.8	1.1	4.7	9.4
Total non-tax revenues.....	317.4	7.2	280.1	6.4	37.3	13.3
Total ordinary revenues.....	4,326.4	98.3	4,277.7	98.1	48.7	1.1
Special receipts and credits.....	73.7	1.7	83.1	1.9	-9.4	-11.3
Total revenues.....	4,400.1	100.0	4,360.8	100.0	39.3	0.9

* Excluding tax credited to Old Age Security Fund—

	1953-54	1952-53
2% personal income tax	90.7 million	45.2 million
2% corporation income tax	55.6 "	36.9 "
2% sales tax	147.7 "	141.6 "
	294.0 "	223.7 "

(1) DIRECT TAXES

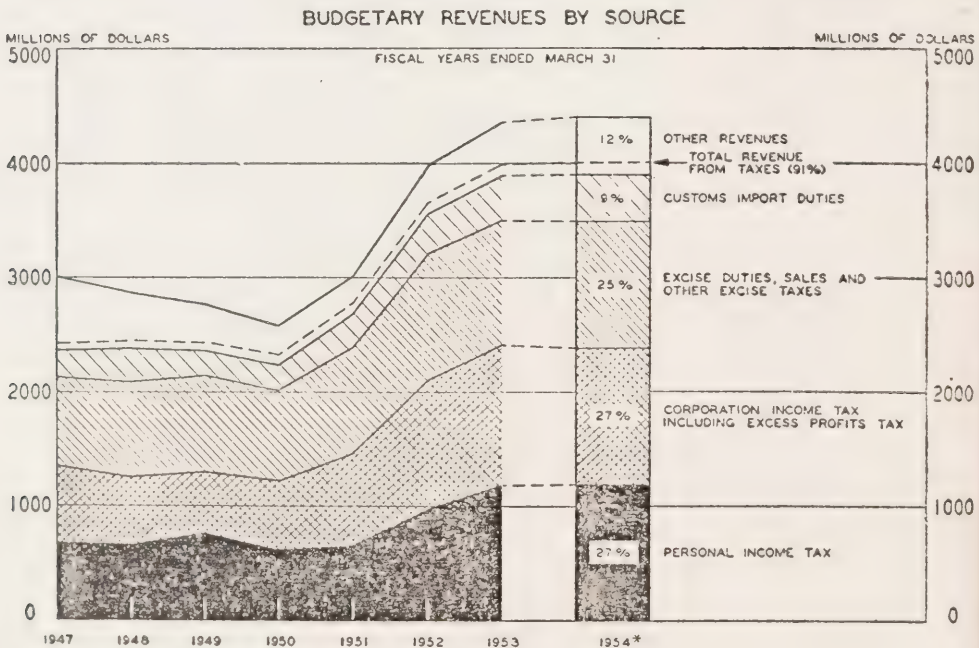
Tax on Personal Incomes

Personal income tax (excluding the old age security tax) yielded a total of \$1,189.3 million in 1953-54, an increase of \$9.3 million or 0.8 per cent over the previous year. Deductions at the source from salary and wages since July 1, 1953, have been made at rates averaging about 11 per cent less than those applicable in the corresponding period of 1952-53. In addition, that part of personal income tax revenue which is paid in quarterly instalments, and as balances with returns, has been based in 1953-54 on lower rates than in the previous year. The effect of these two factors however has been more than offset by the increase in personal incomes during the year.

In addition the 2 per cent tax on personal incomes levied under the Old Age Security Act yielded an estimated amount of \$90.7 million during 1953-54 compared with \$45.2 million in 1952-53. These collections were credited to the Old Age Security Fund.

Taxes on Interest, Dividends, Rents and Royalties Going Abroad

Revenues under this heading are derived from withholding taxes on payments of interest, dividends, rents and royalties made to non-residents. The estimated total of \$54 million compares with \$53.7 in 1952-53.

*Corporation Income Tax*

Corporation income tax (excluding the old age security tax) yielded revenues of \$1,193.4 million in 1953-54, a decrease of \$46.7 million or 3.8 per cent from the previous year's total of \$1,240.1 million. While this decrease is due partly to the fact that corporate profits in 1953 were somewhat less than in 1952 it is attributable mainly to the reduction in rates of tax announced in the 1953 budget, applicable to profits earned after January 1, 1953. The 1953 budget imposed rates of 18 per cent on the first \$20,000 of profits and 47 per cent on

profits in excess of \$20,000; the former rates had been 20 per cent on the first \$10,000 of profits and 50 per cent on profits in excess of \$10,000. Also, in 1953 the allowable deduction from federal tax of 5 per cent of taxable income earned in the Province of Quebec was increased to 7 per cent.

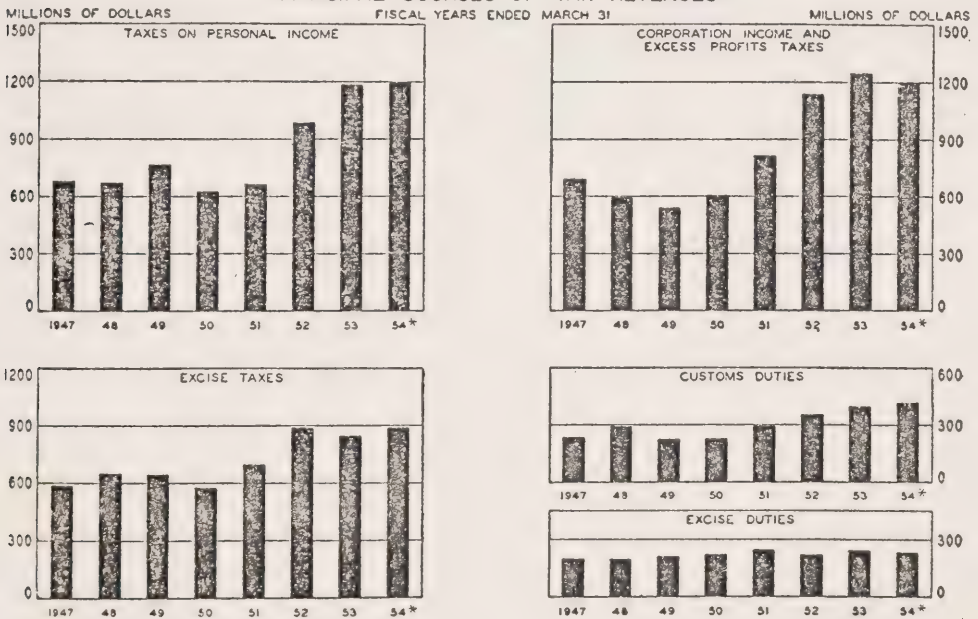
The total revenue from corporation income tax includes \$9 million paid by corporations paying the 15 per cent tax on their undistributed income. This compares with \$10.2 million collected from this source in 1952-53.

In addition the 2 per cent tax levied on corporate profits under the Old Age Security Act yielded \$55.6 million during 1953-54 as compared with \$36.9 million in 1952-53. These collections were credited to the Old Age Security Fund.

Succession Duties

Revenues from succession duties were \$40 million in 1953-54, an increase of \$1.9 million or 5 per cent over the previous year.

PRINCIPAL SOURCES OF TAX REVENUES



* Estimated.

(2) INDIRECT TAXES

Customs Import Duties

Net revenue from customs import duties for the year were \$408 million, an increase of 4.8 per cent over the 1952-53 total of \$389.4 million. The increase in revenue corresponds to the increase in total value of imports.

Excise Duties

Excise duties are levied exclusively on alcoholic beverages and tobacco products. (Additional taxes are levied under the Excise Tax Act on tobacco products). The revenue from excise duties for the year was \$228 million, a decrease of \$13.4 million from the previous year's yield of \$241.4 million. The decrease is due to the fact that the rates of duty on cigarettes were reduced in the 1953 budget. The decrease in revenue from cigarettes is partly offset by an increase in the revenue from spirits.

Gross receipts from excise duties, before deducting refunds, are divided as follows: \$133 million from alcoholic beverages (\$127.7 million in 1952-53), and \$98 million from tobacco products (\$116.9 million in 1952-53).

Excise Taxes

Net excise tax collections (excluding the 2 per cent old age security sales tax) are estimated at \$882 million in 1953-54, an increase of \$40.1 million over the previous year.

The sales tax, from the standpoint of revenue, is the principal tax levied under the Excise Tax Act. Despite new exemptions from the sales tax announced in the 1953 budget which were estimated to reduce revenue by about \$8 million, the gross revenue from sales tax was \$612 million, an increase of \$28.2 million compared with \$583.8 million in 1952-53. Since there was no substantial changes in the general price level during the year, the increase is attributed to higher production and imports.

Excise taxes other than sales tax yielded approximately \$290 million, or \$11.5 million more than in 1952-53. This increase occurred in spite of the fact that the stamp taxes on cheques, money orders, and security transfers, which yielded \$10.6 million in 1952-53, were repealed in the 1953 budget.

The largest increases in the yields from taxes in this category were from the tax on automobiles, tires and tubes, which yielded approximately \$101 million (\$89.9 million in 1952-53). Of nearly equal importance is the increase in collections of the tax on tobacco products. Due to increased cigarette sales these taxes yielded approximately \$7 million more than in the previous year. Finally, revenue from the tax on radios and television sets is estimated at \$16.5 million, an increase of \$5.8 million over last year.

In addition the 2 per cent tax on sales levied under the Old Age Security Act yielded \$147.7 million during 1953-54, compared with \$141.6 million in 1952-53. These collections are credited to the Old Age Security Fund.

Other Indirect Taxes

The taxes under this heading are the tax on premium income of insurance companies, the tax on the export of electrical energy from Canada, and the tax on the export of furs from the Northwest Territories. These taxes produced \$14.3 million, an increase of \$1.3 million over 1952-53. Of this total the tax on premium income of insurance companies yielded approximately \$13.6 million, in 1952-53 the yield was \$12.4 million.

(3) NON-TAX REVENUES

Non-tax revenues for 1953-54 are estimated at \$317.4 million, an increase of \$37.3 million over the total for 1952-53. The following table presents a comparative summary of revenues under this heading for the past two years:

TABLE III
NON-TAX REVENUES FOR THE FISCAL YEARS ENDED MARCH 31, 1954, AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Post Office.....	111.5	111.9	—0.4
Return on investments.....	147.5	116.9	30.6
Premium, discount and exchange.....	3.9	1.5	2.4
Bullion and coinage.....	4.8	4.4	0.4
Privileges, licences and permits.....	12.7	11.3	1.4
Proceeds from sales.....	4.6	5.2	—0.6
Services and service fees.....	17.6	17.2	0.4
Refunds of previous years' expenditures.....	12.0	9.3	2.7
Miscellaneous.....	2.8	2.4	0.4
Total non-tax revenues.....	317.4	280.1	37.3

Post Office

Gross post office receipts for 1953-54 are expected to amount to \$129·8 million. After making authorized disbursements from revenue of \$18·3 million for salaries and rent allowances at semi-staff and revenue offices, commissions at sub-offices, transit charges on Canadian mail forwarded through or delivered in foreign countries, etc., net post office receipts credited to budgetary revenues are estimated at \$111·5 million. A small increase of \$0·5 million in gross receipts over the corresponding amount received in 1952-53 is more than offset by an increase of \$0·9 million in payments from revenue, due mainly to an increase in remuneration paid to revenue postmasters and their assistants. Costs of operating the Post Office during 1953-54 (excluding the \$18·3 million charged to revenue) are expected to total \$114 million and thus will exceed net revenue by approximately \$2·5 million. However, in making this comparison it is to be noted that the total shown for post office revenues does not reflect any payment for the franking privilege covering parliamentary and departmental mail or for other special services provided for other government departments and agencies, nor does the total shown for operating expenses reflect any charges for premises occupied by the Post Office Department or for certain accounting and miscellaneous services provided by other departments.

Return on Investments

Return on investments is expected to yield \$147·5 million, an increase of \$30·6 million over the total of \$116·9 million received in 1952-53. Half of this increase is attributable to the profits of the Bank of Canada, which for the calendar year 1953 were \$15·1 million above those for the previous year. Also contributing to the increase in 1953-54 is the estimated surplus of \$10 million to be turned over by Canadian Arsenals Limited; the corresponding item for 1952-53 of \$6·1 million was included in special receipts and credits. There were also increases in interest received during 1953 from the Canadian National Railways and Central Mortgage and Housing Corporation of \$3·8 million and \$1·9 million respectively. In addition \$2·2 million is included in revenues representing surplus funds in excess of the \$5 million reserve established by Central Mortgage and Housing Corporation which are payable to the Receiver General; in prior years the corresponding amounts were credited to special receipts and credits. The principal item offsetting these increases was a decrease of \$6·4 million in the amount of dividends and interest received from Polymer Corporation Limited, due mainly to the fact that there was no receipt in 1953 comparable to the special dividend of \$6 million paid by the Corporation in 1952.

A comparative summary of estimated receipts during 1953-54 with actual receipts during 1952-53 under this heading is given in the following table:

TABLE IV

RETURN ON INVESTMENTS FOR THE FISCAL YEARS ENDED MARCH 31, 1954,
AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Loans to, and investments in, Crown Agencies—			
Bank of Canada.....	44.1	29.0	15.1
Exchange Fund account.....	16.3	14.8	1.5
Central Mortgage and Housing Corporation.....	13.3	9.2	4.1
Canadian Arsenals Limited.....	10.0	.....	10.0
Canadian National Railways.....	6.7	2.9	3.8
National Harbours Board.....	4.3	5.0	—0.7
Polymer Corporation Limited.....	3.2	9.6	—6.4
Other Crown agencies.....	1.6	1.4	0.2
	99.5	71.9	27.6
Other loans and investments—			
United Kingdom.....	23.1	23.4	—0.3
Other national governments.....	12.6	12.6	.....
Provincial and municipal governments.....	1.1	1.2	—0.1
Soldier and general land settlement loans and Veterans' Land Act advances.....	5.1	4.7	0.4
Securities investment account.....	2.3	1.8	0.5
Sinking fund and other investments held for retirement of unmatured funded debt.....	2.4	0.7	1.8
Other loans and investments.....	1.4	0.6	0.7
	48.0	45.0	3.0
	147.5	116.9	30.6

Premium, Discount and Exchange

The amount credited to premium, discount and exchange in 1953-54 was \$3.9 million compared with a credit of \$1.5 million in 1952-53. This revenue item arises mainly from accounting adjustments in asset and liability accounts to reflect a reduction in U.S. dollar and sterling exchange rates from those operative in the fiscal year 1952-53. It is estimated that the Canadian dollar equivalent of outstanding debt payable in sterling and in United States dollars will be reduced in consequence of this revaluation by \$4.8 million, offset by \$2.5 million reduction in assets payable in these currencies. The result is a net credit in the premium, discount and exchange account of \$2.3 million. Net differences in rates on current gold and foreign exchange transactions are expected to account for a further credit of \$1.6 million, resulting in a net revenue item of \$3.9 million.

(4) SPECIAL RECEIPTS AND CREDITS

Special receipts and credits are expected to total \$73.7 million for the fiscal year 1953-54 compared with a total of \$83.1 million received in the previous year. A comparative summary of the sources of special receipts and other credits for the last two years is presented in the following table:

TABLE V

SPECIAL RECEIPTS AND CREDITS FOR THE FISCAL YEARS ENDED MARCH 31, 1954
AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Transfer to revenue of provincial 5 per cent corporation income tax suspense account pursuant to the 1952 tax rental agreements.....	46.9	45.0	1.9
Proceeds from the sale of Crown assets.....	17.1	7.6	9.5
Central Mortgage and Housing Corporation—			
Profits paid to Receiver General.....	(1)	2.1	-2.1
Proceeds and depreciation reserve with respect to the sale of wartime housing properties.....	5.2	6.7	-1.5
Transfer to revenue of Canadian Wheat Board suspense account.....		6.3	-6.3
Surplus of Canadian Arsenals, Limited.....	(1)	6.1	-6.1
Write up to active assets—Atomic Energy of Canada, Limited—capital stock.....		4.8	-4.8
Miscellaneous special receipts.....	4.5	4.5	.....
	73.7	83.1	-9.4

(1) Included in Return on Investments in 1953-54.

The amount of \$46.9 million represents the transfer to revenue of the balance of the provincial 5 per cent corporation income tax suspense account. A fuller explanation may be found in the section on Sundry Suspense Liabilities.

\$17.1 million was received during the fiscal year from the sale of Crown assets. Of this amount \$7.9 million was received from the Crown Assets Disposal Corporation representing the amount realized from the disposal of surplus Crown assets after allowing for transfers to active assets of amounts applicable to "Balances receivable under agreements of sale of Crown assets". It does not include the residual cash balances nor the value of accounts receivable carried by the corporation as at March 31, 1954.

The remaining \$9.2 million under this heading consists of two amounts received under agreements of sale. Crown-owned land and buildings were sold by the Department of Defence Production to A. V. Roe Canada Limited for approximately \$17 million. During the fiscal year cash payments of \$9 million were received; the balance is set up under "Other loans and investments" as "Balances receivable under agreements of sale of Crown assets." Also under an agreement of sale Crown-owned machine tools and equipment were sold by the Department of Defence Production to Weatherhead Company of Canada Limited for approximately \$700,000. A cash payment of \$200,000 was received during the fiscal year, and the balance set up under "Other loans and investments" as "Balances receivable".

An estimated amount of \$5.2 million is included as revenues received from Central Mortgage and Housing Corporation representing the proceeds of the sale of wartime housing properties including depreciation provisions set aside in previous years by the corporation on properties that have now been sold. In addition, an estimated amount of \$11.1 million for interest on loans to the corporation and \$2.2 million representing profits in excess of the \$5 million reserve established by the corporation was received. Both these amounts are credited to "Return on investments" in the current year. In 1952-53 profits of \$2.1 million were credited to special receipts as shown in the table.

(5) COMPARISON OF ACTUAL REVENUE WITH BUDGET FORECAST

Total budgetary revenues for 1953-54, excluding revenue from the old age security taxes, as now estimated were about \$73 million less than the forecast made in the budget speech of February 19, 1953. This represents a shortfall of about $1\frac{1}{2}$ per cent. Revenues from personal income tax, corporation income tax and excise duties were less than expected, while revenues from customs import duties, sales tax and other excise taxes exceeded expectations.

The following table shows the extent to which actual revenues as now estimated differ from the budget forecast.

TABLE VI
COMPARISON OF BUDGET FORECAST WITH ACTUAL REVENUES FOR
FISCAL YEAR ENDED MARCH 31, 1954
(In millions of dollars)

Source of Revenues	Budget Forecast of Revenues	Actual Revenues (Estimated)	Increase or Decrease (—) compared with Budget Forecast
Personal income tax.....	1,250.0	1,189.3	-60.7
Non-resident income taxes.....	55.0	54.0	-1.0
Corporation income tax.....	1,228.0	1,193.4	-34.6
Succession duties.....	40.0	40.0	
Customs import duties.....	395.0	408.0	13.0
Excise duties.....	265.0	228.0	-37.0
Sales tax (net).....	580.0	592.0	12.0
Other excise taxes.....	285.0	290.0	5.0
Miscellaneous taxes.....	10.0	14.3	4.3
Total tax revenues.....	4,108.0	4,009.0	-99.0
Non-tax revenues.....	290.0	317.4	27.4
Total ordinary revenues.....	4,398.0	4,326.4	-71.6
Special receipts and credits.....	75.0	73.7	-1.3
Total budgetary revenues.....	4,473.0	4,400.1	-72.9

The revenue from personal income tax was \$61 million or nearly 5 per cent less than the budget forecast. The deficiency is due mainly to the fact that refunds of tax were considerably more than expected.

Corporation income tax collections are approximately \$35 million less than the budget forecast which was based on the assumption that 1953 profits would be larger than in 1952. Preliminary indications are that 1953 profits did not reach the expected level.

Customs duties yielded approximately \$13 million more than the budget forecast. This is attributed to record values of imports in the early months of the fiscal year.

Revenue from excise duties fell short of the budget forecast by about 14 per cent. This difference arises from a combination of causes of which the most important is the fact that the budget forecast was based on an estimate of receipts in 1952-53 which turned out to have been too high. In addition the use of malt did not increase in step with the increase in beer sales resulting in the revenue from this source falling below expectations. Finally the reduction in the excise duty revenue from tobacco products as a result of the reductions in the tax on cigarettes announced in the 1953 budget was greater than anticipated although this was partly offset by higher revenues from the excise tax on cigarettes.

Sales tax exceeded the budget forecast by about \$12 million or 2 per cent. The strength of this revenue source in 1953-54 is indicative of the high level of consumer spending.

The excess of non-tax revenues over the budget forecast is attributable largely to the fact that revenues from return on investments were much larger than anticipated, reflecting the increased earnings of the Bank of Canada for the calendar year 1953, and the fact that profits of Canadian Arsenals Limited and Central Mortgage and Housing Corporation which in 1952-53 were credited to "Special receipts and credits" were in 1953-54 included as "Return on investments".

While special receipts and credits are very difficult to estimate with any high degree of accuracy, the budget forecast of \$75 million for 1953-54 appears to have been very close to the actual amount received.

B. EXPENDITURES

The table which follows presents a comparative summary of estimated expenditures by departments and principal purposes for the fiscal year 1953-54, with actual expenditures for the preceding fiscal year.

TABLE VII
STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CLASSIFICATIONS
FOR THE YEARS ENDED MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31				Increase or Decrease (—)	
	1954 (Estimated)		1953		Amount	Per cent
	Amount	Per cent	Amount	Per cent		
National Defence.....	1,839.7	41.9	1,882.4	43.4	-42.7	-2.3
Defence Production.....	49.9	1.1	88.8	2.0	-38.9	-43.8
	1,889.6	43.0	1,971.2	45.4	-81.6	-4.1
Public Debt Charges—						
Interest on public debt.....	476.7	10.9	451.3	10.4	25.4	5.6
Other debt charges.....	19.7	0.4	13.6	0.3	6.1	44.9
	496.4	11.3	464.9	10.7	31.5	6.8
Provincial subsidies and tax rental payments (including transitional grant to Newfoundland).....	338.1	7.7	338.7	7.8	-0.6	-0.2
Government contributions with respect to civil service superannuation account.....	54.5	1.2	38.8	0.9	15.7	40.5
Provision for reserve for possible losses on ultimate realization of active assets.....	50.0	1.1	75.0	1.7	-25.0	-33.3
Family allowances.....	350.1	8.0	334.2	7.7	15.9	4.8
Unemployment Insurance Act—Administration and Government's contribution.....	58.2	1.3	56.2	1.3	2.0	3.6
Agriculture.....	109.3	2.5	106.7	2.5	2.6	2.4
Canadian Broadcasting Corporation.....	24.8	0.6	8.2	0.2	16.6	202.4
Citizenship and Immigration.....	25.0	0.6	23.6	0.5	2.3	9.7
External Affairs.....	45.4	1.0	39.3	0.9	6.1	15.5
Finance.....	30.3	0.7	29.5	0.7	0.8	2.7
Mines and Technical Surveys.....	37.5	0.9	29.7	0.7	7.8	26.3
National Health and Welfare.....	80.5	1.8	72.4	1.7	8.1	11.2
National Research Council and Atomic Energy Control Board.....	28.2	0.7	28.3	0.7	-0.1	-0.4
National Revenue.....	50.1	1.1	47.3	1.1	2.8	5.9
Northern Affairs and National Resources.....	19.5	0.5	19.5	0.4		
	114.0	2.6	105.6	2.4	8.4	8.0
Post Office.....	114.5	2.6	97.9	2.3	16.6	17.0
Public Works.....	34.0	0.8	31.1	0.7	2.9	9.3
Royal Canadian Mounted Police.....	16.7	0.4	16.5	0.4	0.2	1.2
Trade and Commerce.....	120.2	2.7	103.9	2.4	16.3	15.7
Transport.....	239.8	5.5	241.4	5.6	-1.6	-0.7
Veterans Affairs.....	62.4	1.4	57.4	1.3	5.0	8.7
Other Departments.....						
Grand Total.....	4,390.0	100.0	4,337.3	100.0	52.7	1.2

National Defence and Defence Production

Canada's expenditures for defence comprise the expenditures of the Department of National Defence and the Department of Defence Production. Estimated expenditures of the Department of National Defence for the fiscal year 1953-54 were \$1,839.7 million as compared with \$1,882.4 million for 1952-53, a decrease of \$42.7 million, while expenditures of the Department of Defence Production were \$49.9 million, a decrease of \$38.9 million. Consequently, the combined expenditures of the two departments amounting to \$1,889.6 million for the year under review are \$81.6 million less than the total of \$1,971.2 million for 1952-53. Defence expenditures constituted approximately 43 per cent of all government expenditures in 1953-54, and were, by a considerable margin, the largest class of government expenditure.

The following table shows a comparative summary of expenditures for the two departments for the last two fiscal years:

TABLE VIII
DEFENCE EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954, AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Department of National Defence—			
Army services.....	407.2	516.1	—108.9
Navy services.....	264.5	260.3	4.2
Air services.....	745.2	768.0	—22.8
	1,416.9	1,544.4	—127.5
Defence research and development.....	43.8	43.0	0.8
Government's contribution to the permanent services pension account.....	35.3	30.0	5.3
Mutual aid to NATO countries.....	309.2	235.1	74.1
Contributions toward military costs of NATO.....	12.0	11.3	0.7
Administration and general.....	22.5	18.6	3.9
	1,839.7	1,882.4	—42.7
Department of Defence Production—			
Capital assistance.....	39.5	79.1	—39.6
Administration and general.....	10.4	9.7	0.7
	49.9	88.8	—38.9
	1,889.6	1,971.2	—81.6

Total expenditures for the army, navy and air services were \$1,416.9 million for 1953-54 as compared with \$1,544.4 million for 1952-53, a decrease of \$127.5 million. Expenditures for defence research and development, at \$43.8 million, were slightly more than for the preceding year.

The Government's contribution to the permanent services pension account, which is equivalent to $1\frac{2}{3}$ times the contributions for permanent services personnel, was \$35.3 million for 1953-54, or \$5.3 million more than the amount contributed in 1952-53. Of the expenditures for 1953-54, \$30.6 million relates to current contributions and \$4.7 million to contributions for arrears. In 1952-53, the corresponding amounts were \$25.2 million and \$4.8 million, respectively.

Expenditures under the Mutual Aid programme which are authorized by Section 3 of the Defence Appropriation Act, 1950, are expected to amount to \$309.2 million in 1953-54, an increase of \$74.1 million over 1952-53. Under the provisions of this section of the Act, defence equipment and supplies are transferred from Canadian stocks to other parties to the North Atlantic Treaty. The value of equipment and supplies acquired by the services prior to March 31, 1950, and transferred as Mutual Aid, is charged to this appropriation and

credited to a special defence equipment replacement account. The value of the equipment is based on its estimated replacement value. In accordance with the provisions of Vote 241 of the Appropriation Act, No. 3, 1953, where equipment and supplies acquired for the services since March 31, 1950, are transferred as Mutual Aid, their estimated replacement value is credited to the appropriate service allotment instead of being paid into the replacement account, and may be expended during the current fiscal year for the purposes of the Canadian forces. The expenditure of \$309.2 million in 1953-54 consists of approximately \$77.9 million for equipment and supplies transferred from Canadian stocks to North Atlantic Treaty countries and \$231.3 million for direct cash outlays for Mutual Aid by the Government of Canada, representing costs incurred in acquiring and supplying new military equipment to parties to the North Atlantic Treaty and in the training in Canada of aircrews from allied countries. In 1952-53, stock transfers amounted to \$55.5 million and direct aid to \$179.6 million.

Contributions made by Canada towards the military costs of NATO are charged to the National Defence appropriations. These payments comprise Canada's share of the NATO military budgets and of infrastructure costs. The percentage share borne by each nation is established in the North Atlantic Council, subject to ratification by the respective governments. Expenditures during 1953-54 for this purpose were \$12 million, as compared with \$11.3 million for 1952-53.

Expenditures for the Department of Defence Production were \$49.9 million for 1953-54, a decrease of \$38.9 million from the total of \$88.8 million for the previous year. Capital assistance to private contractors, Crown plants operated on a management fee basis, and Crown corporations undertaking contracts essential to the defence programme, totalled \$39.5 million, as compared with \$79.1 million for 1952-53. Administration and general expenditures of the Department were \$10.4 million, an increase of \$0.7 million over the previous fiscal year.

In addition to the foregoing budgetary expenditures, the Department of Defence Production has made cash outlays from the defence production revolving fund for the procurement of materials for use in the manufacture of defence equipment. For purposes of accounting and control, materials so acquired are treated as assets in the books of the Government until they are billed to the Department of National Defence or sold to defence contractors for use in the manufacture of defence equipment. It is estimated that the net cash position of the fund in 1953-54 was reduced by \$17.1 million, as compared with a net increase of \$19.7 million in 1952-53.

The replacement of equipment and supplies acquired by the Department of National Defence prior to March 31, 1950, and subsequently transferred to parties of the North Atlantic Treaty Organization, also involved cash outlays which were not reflected as budgetary expenditures. The cost of such replacement is charged to the defence equipment replacement account, which is credited with the estimated value of the defence equipment and supplies, when these are transferred from Canadian stocks to NATO countries. Transfers to this account during 1953-54 were \$77.9 million, and it is estimated that \$36.5 million was disbursed for the purchase of replacement equipment and supplies. The balance of the account at March 31, 1953, was \$271.1 million, and, as a result of the past year's operations, a total of \$41.4 million has been added to this account, bringing it up to \$312.5 million as of March 31, 1954.

In addition to the foregoing, there is provision under Section 11 of the National Defence Act for the sale of materiel not immediately required for the use of the Canadian forces or the Defence Research Board to such countries and upon such terms as the Governor in Council may determine. The proceeds of sale are credited to a special account to be used for the procurement of materiel. Credits to the replacement of materiel account in 1953-54 totalled \$15.7 million, while \$3.7 million was withdrawn therefrom.

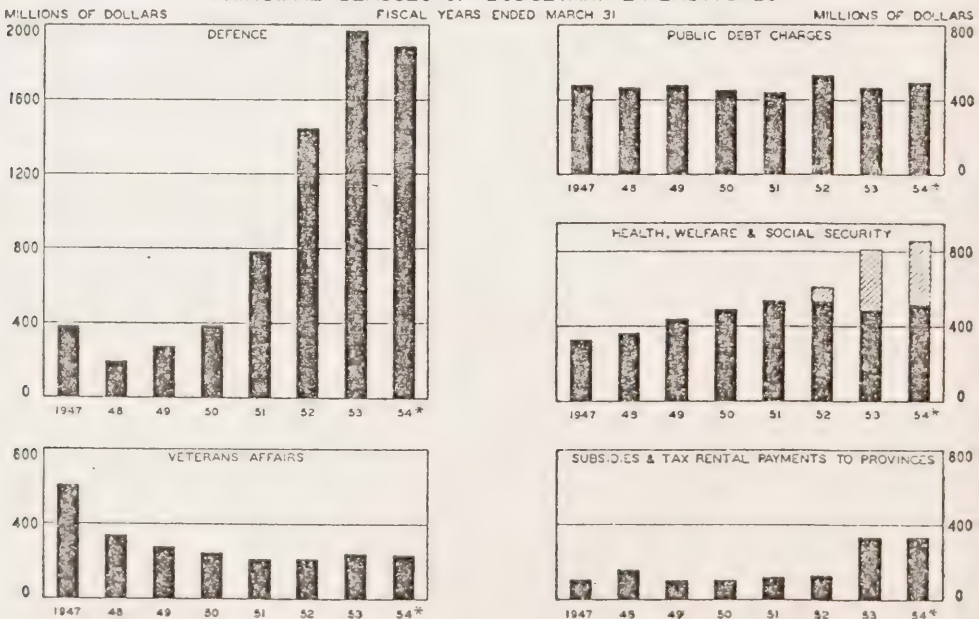
The net effect of the defence programme upon the Canadian economy, is a combination of the net cash outlays from the defence equipment replacement account, the replacement of materiel account and the defence production revolving fund, together with the net *cash* budgetary expenditures of the Departments of National Defence and Defence Production. This net cash outlay for defence amounted to \$1,819.1 million in 1953-54, a decrease of \$86.7 million from the corresponding total in 1952-53.

The following table presents a summary of the cash disbursements for defence for the last two fiscal years:

TABLE IX
CASH OUTLAYS FOR DEFENCE FOR THE FISCAL YEARS ENDED MARCH 31, 1954
AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease(—)
	1954 (Estimated)	1953	
Budgetary Expenditures—			
Department of National Defence.....	1,839.7	1,882.4	—42.7
Department of Defence Production.....	49.9	83.8	—33.9
	1,889.6	1,971.2	—81.6
Less: Value of military equipment and supplies transferred from existing Canadian stocks to NATO countries (in- cluded in budgetary expenditures).....	77.9	55.5	22.4
	1,811.7	1,915.7	—104.0
Disbursements from:			
Defence equipment replacement account.....	36.5	—14.2	50.7
Replacement of materiel account (Sec. 11, National Defence Act,) (net).....	—12.0	—15.4	3.4
Defence production revolving fund (net).....	—17.1	19.7	—36.8
	7.4	—9.9	17.3
Net cash outlay for defence.....	1,819.1	1,905.8	—86.7

PRINCIPAL CLASSES OF BUDGETARY EXPENDITURES



* Estimate.

NOTE: The lightly shaded area in the chart for Health, Welfare and Social Security represents pension payments out of the old age security fund.

Public Debt Charges

Public debt charges in 1953-54, as in 1952-53, constituted the second largest item of government expense. The total of \$496.4 million for the year under review represented 11.3 per cent of total budgetary expenditures compared with a total of \$464.9 million or 10.7 per cent in 1952-53.

Interest on the unmatured funded debt was \$412.3 million compared with \$393.1 million in 1952-53. All of this increase of \$19.2 million is attributable to interest on debt payable in Canada. A substantial increase in the amount of Canada Savings Bonds outstanding and an increase of approximately 0.1 per cent in the average interest rate account for the greater part of the increase.

Interest on deposit and trust accounts is expected to show a small increase of \$0.2 million over the previous year, while interest on insurance and pension accounts, estimated at \$61.3 million, is \$6 million higher than in 1952-53. Of this latter increase \$2.4 million is in respect of government annuities, \$1.4 million is on civil service superannuation account and \$1.9 million on permanent services pension account.

Other public debt charges are estimated at \$19.7 million, an increase of \$6.1 million over 1952-53. The greater part of this increase is due to an increase in the annual amortization charge for discount and commissions on previous bond issues.

The following table presents a comparative summary of public debt charges for 1953-54 and the corresponding figures for the previous year.

TABLE X

INTEREST AND OTHER PUBLIC DEBT CHARGES FOR THE FISCAL YEARS ENDED MARCH 31, 1954,
AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ende ¹ March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Interest on Public Debt—			
Funded Debt and Treasury Bills—			
Payable in Canada.....	400.8	381.6	19.2
Payable in London.....	1.6	1.6	.....
Payable in New York.....	9.9	9.9	.....
	412.3	393.1	19.2
Deposit and Trust Accounts.....	3.1	2.9	0.2
Insurance, Pension and Guaranty Accounts.....	61.3	55.3	6.0
	64.4	58.2	6.2
Total Interest on Public Debt.....	476.7	451.3	25.4
Annual amortization of bond discounts and commissions....	17.8	12.0	5.8
Servicing of Public Debt.....	0.6	0.5	0.1
Cost of issuing new loans.....	1.3	1.1	0.2
	19.7	13.6	6.1
Total Public Debt Charges.....	496.4	464.9	31.5

Subsidies and Tax Rental Payments to Provinces

Payments to the provinces during 1953-54 for statutory subsidies, rentals under the tax rental agreements, the transitional grant to Newfoundland, and the transfer of certain public utility tax receipts, were \$338.1 million compared with \$338.7 million in 1952-53.

A comparative summary of the payments for the two years is given in the following table:

TABLE XI
SUBSIDIES AND TAX RENTAL PAYMENTS TO PROVINCES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953.

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Rentals under tax rental agreements c. 49, Statutes of 1952....	309.2	284.8	24.4
Rentals under tax rental agreements c. 58, Statutes of 1947.....	.....	23.8	—23.8
Statutory subsidies.....	20.1	20.1	.....
Transitional grant to Newfoundland.....	4.8	5.6	—0.8
Transfer of certain public utility tax receipts—sec. 7, c. 53, Statutes of 1947.....	4.0	4.4	—0.4
	338.1	338.7	—0.6

The total paid as subsidies and tax rental payments in 1953-54 is almost exactly equal to that paid in 1952-53 despite the fact that tax rental payments in 1952-53 included the final quarterly instalment under the old 1947 agreements as well as a full year's rental payments under the 1952 agreements.

The payments under the 1952 tax rental agreements in 1953-54 were \$24.4 million greater than in the previous year reflecting the increases in provincial populations and gross national product per capita in 1952 over the base year 1948.

Statutory subsidies in 1953-54 were unchanged from the previous year, both years' payments being based on the 1951 census totals of population.

The amount of public utility tax receipts transferred to the provinces is expected to be \$0.4 million less than in the previous year. Section 7 of the Dominion-Provincial Tax Rental Agreements Act, 1947, authorized the payment to the provinces, whether participating in the agreements or not, of a portion of the income tax collected from corporations, whose main business was the distribution to, or the generation for distribution to, the public of electrical energy, gas or steam. Provision for similar payments was also made in the Tax Rental Agreements Act, 1952.

A summary of payments, by provinces during 1953-54 is given in the following table:

TABLE XII

SUBSIDIES AND TAX RENTAL PAYMENTS TO PROVINCES FOR THE FISCAL YEAR ENDED
MARCH 31, 1954

(In millions of dollars)

	Statutory Subsidies	Rentals under 1952 Tax Rental Agreements	Transi- tional Grant	Total
Newfoundland.....	1.6	11.8	4.8	18.2
Nova Scotia.....	2.1	19.5		21.6
Prince Edward Island.....	0.7	3.7		4.4
New Brunswick.....	1.7	16.2		17.9
Quebec.....	3.3			3.3
Ontario.....	3.6	134.4		138.0
Manitoba.....	1.7	25.0		26.7
Saskatchewan.....	2.0	25.3		27.3
Alberta.....	2.1	29.8		31.9
British Columbia.....	1.3	43.5		44.8
	20.1	309.2	4.8	334.1
Transfer of certain public utility tax receipts (Sec. 7, Chap. 53, Statutes of 1947).....				4.0
				338.1

Government Contributions to the Civil Service Superannuation Account

It is estimated that \$54.5 million will be charged to expenditures in 1953-54 in connection with the civil service superannuation account, an increase of \$15.7 million compared with \$38.8 million charged in 1952-53.

The government contributes in each fiscal year an amount equal to the estimated payments by individual contributors in the previous year in respect of current and prior service. The government's contribution for 1953-54 is estimated at \$16.5 million compared with \$13.8 million in 1952-53.

In addition, \$38 million is included in the year's expenditures representing the amount required to cover the additional liability created by the general increase in civil service salaries effective December 1, 1953.

Provision for Reserve for Possible Losses on Ultimate Realization of Active Assets

An amount of \$50 million is included as an expenditure in the government's accounts as an addition during the fiscal year 1953-54 to the general reserve for possible losses on the ultimate realization of active assets. It is intended, however, to write off \$99.5 million, the amount of temporary loans made by the Minister of Finance to the old age security fund in 1952-53, against this reserve. This will leave the balance in the reserve at the end of the fiscal year at \$496.4 million which is equivalent to 6.8 per cent of the aggregate active assets.

Family Allowances

Family allowances are payable in respect of all children under sixteen resident in Canada, with minor exceptions such as in the case of children of immigrants who have to reside in Canada a year before an allowance is payable. The monthly allowance is \$5 if the child is less than six years of age; \$6 in the age group 6 to 9; \$7 in the age group 10 to 12; and \$8 in the age group 13 to 15.

For 1953-54 family allowance payments are estimated at \$350.1 million representing 8 per cent of the total expenditures compared with \$334.2 million or 7.7 per cent for 1952-53. The increase of \$15.9 million reflects the increase in the number of children.

The following table presents a comparative summary of family allowance payments by provinces for the last two fiscal years:

TABLE XIII
FAMILY ALLOWANCE PAYMENTS FOR THE FISCAL YEARS ENDED MARCH 31, 1954
AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase
	1954 (Estimated)	1953	
Newfoundland.....	11.4	11.0	0.4
Nova Scotia.....	16.7	16.3	0.4
Prince Edward Island.....	2.5	2.5	
New Brunswick.....	14.7	14.3	0.4
Quebec.....	111.5	107.1	4.4
Ontario.....	104.6	98.3	6.3
Manitoba.....	17.9	17.3	0.6
Saskatchewan.....	20.2	19.7	0.5
Alberta.....	23.9	22.6	1.3
British Columbia.....	26.0	24.4	1.6
Northwest and Yukon Territories.....	0.7	0.7	
	350.1	334.2	15.9

Unemployment Insurance Act Administration and Government's Contribution

Expenditures for 1953-54 in connection with the Unemployment Insurance Act (excluding the government's payment as an employer) are estimated at \$58.2 million compared with \$56.2 million in 1952-53, an increase of \$2 million.

Unemployment insurance benefits are not charged directly to budgetary expenditures. The Unemployment Insurance Fund, from which such benefits are paid, is financed by contributions from employers and employees, by interest earned on investments, and by the government's contribution of an amount equal to one-fifth of the combined employer-employee payments.

For 1953-54, the government's contribution to the Fund is estimated at \$31.9 million, an increase of \$0.8 million over the total of \$31.1 million in 1952-53. Administration costs are estimated at \$26.3 million or \$1.3 million more than the total of \$25 million for the previous fiscal year.

Agriculture

The Department of Agriculture expenditures for 1953-54 are estimated at \$109.3 million an increase of \$2.6 million compared with expenditures of \$106.7 million in 1952-53. The net increase of \$2.6 million reflects an increase of \$5.3 million in the operating losses of the Agricultural Prices Support Board, decreases of \$3.7 million in freight assistance on western feed grains, and \$1.5 million in premiums on hog carcasses and other smaller changes.

The following table presents a comparative summary of the expenditures of the department for the last two fiscal years:

TABLE XIV
EXPENDITURES OF THE DEPARTMENT OF AGRICULTURE FOR THE FISCAL YEARS ENDED
MARCH 31, 1954, AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Operating losses of the Agricultural Prices Support Board....	37.8	32.5	5.3
Freight assistance on western feed grains.....	17.0	20.7	-3.7
Rehabilitation and reclamation projects.....	14.8	13.9	0.9
Premium on hog carcasses including administrative costs....	4.9	6.4	-1.5
Experimental farms service.....	8.7	8.3	0.4
Science service.....	9.0	8.1	0.9
Production service.....	9.7	9.3	0.4
Marketing service.....	4.4	4.8	-0.4
Departmental administration and sundry.....	3.0	2.7	0.3
	109.3	106.7	2.6

Canadian Broadcasting Corporation

Expenditures by the Government of Canada in respect of the Canadian Broadcasting Corporation are estimated at \$24.8 million for the current fiscal year an increase of \$16.6 million compared with expenditures of \$8.2 million in 1952-53. As proposed in last year's budget the Canadian Broadcasting Act was amended to provide that the corporation in future would receive an amount equivalent to the collections on the 15 per cent special tax imposed on radio and television sets, tubes and accessories. For the current fiscal year, this amount is estimated at \$16.5 million consisting of \$11.5 million in respect of television and \$5 million in respect of radio. Also, as announced in last year's budget speech, the Order in Council under the Radio Act setting the licence fee at \$2.50 for private radio receiving sets was revoked as of April 1, 1953. Consequently, in 1953-54 only \$0.3 million was collected and turned over to the corporation compared with \$5.4 million in 1952-53. Collections in the latter period were derived mainly from private radio station broadcasting licences.

The following table presents a comparative summary of expenditures of the last two fiscal years:

TABLE XV
EXPENDITURES IN RESPECT OF THE CANADIAN BROADCASTING CORPORATION FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Sound broadcasting service.....	6.2	6.2	0.1
International shortwave broadcasting service.....	2.1	2.0	
Payments to the corporation of amounts equal to tax collected under the Excise Tax Act in respect of radio and television sets and equipment.....	16.5	.....	16.5
	24.8	8.2	16.6

In addition, a loan of \$4.7 million was made to the Corporation in 1953-54 to cover the costs of television installations and to support the development of the service. This brings the total of loans to the Corporation to \$16 million;

\$6.7 million of this amount is in respect of television. Interest at various rates is being paid semi-annually by the corporation to the government and is included in non-tax revenues under "Return on Investments".

Citizenship and Immigration

Expenditures of this department are estimated at \$25.9 million for 1953-54, an increase of \$2.3 million over the total of \$23.6 million in 1952-53. The increase is almost wholly accounted for in the expenditures of the Indian Affairs Branch.

The following table presents a comparative summary of expenditures for 1953-54 and 1952-53:

TABLE XVI
CITIZENSHIP AND IMMIGRATION EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars).

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Indian Affairs.....	16.7	15.2	1.5
Immigration.....	7.5	7.1	0.4
Citizenship and Citizenship Registration.....	0.7	0.5	0.2
Administration and general.....	1.0	0.8	0.2
	25.9	23.6	2.3

External Affairs

Expenditures of the Department of External Affairs for 1953-54 are estimated at \$45.4 million, an increase of \$6.1 million over 1952-53. Assistance to other countries directly or through international organizations is estimated at \$31.4 million, an increase of \$4.8 million. The principal item in this category is an amount of \$25 million provided under the Colombo Plan for grants to assist in the economic development of countries in South and South-East Asia. A similar amount was provided in 1952-53. The increase of \$4.8 million in assistance to other countries is due chiefly to the provision for a gift of wheat as a contribution towards the relief of famine in Pakistan.

The table which follows presents a comparative summary of the expenditures of the department for the last two fiscal years:

TABLE XVII
EXPENDITURES OF THE DEPARTMENT OF EXTERNAL AFFAIRS FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Assistance to other countries.....	31.4	26.6	4.8
Canada's assessment for membership in international or commonwealth organizations.....	3.5	3.5	
Representation abroad.....	6.5	5.5	1.0
Administration and general expenditures.....	4.0	3.7	0.3
	45.4	39.3	6.1

Finance

The major items of expenditure of the Department of Finance have been dealt with under the headings "Public debt charges", "Subsidies and tax rental payments to provinces", "Provision for reserve for possible losses on the ultimate realization of active assets" and "Government contribution to the civil service superannuation account".

In addition, other expenditures of the department for 1953-54 were \$30.3 million compared with \$29.5 million in 1952-53.

The following table presents a comparative summary of these expenditures for the past two fiscal years:

TABLE XVIII
GENERAL AND ADMINISTRATION EXPENDITURES OF THE DEPARTMENT OF FINANCE
FOR THE FISCAL YEARS ENDED MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Office of the Comptroller of the Treasury—Administration expenses.....	13.8	13.3	0.5
Grants to universities.....	5.2	5.1	0.1
Grants to municipalities in lieu of taxes on federal property..	3.0	2.6	0.4
Government contribution as an employer to the Unemployment Insurance Fund.....	1.1	1.1	
Federal government share of claims—Rimouski and Cabano fires.....		0.3	—0.3
Implementation of guarantees—Ming Sung Industrial Co. Ltd.....	1.6	1.7	—0.1
Grant to the Canadian National European Flood Relief Fund.....		1.0	—1.0
Departmental administration and general.....	5.6	4.4	1.2
	30.3	29.5	0.8

Mines and Technical Surveys

Expenditures of the Department of Mines and Technical Surveys were \$37.5 million for 1953-54 compared with expenditures of \$29.7 million for 1952-53. The increase of \$7.8 million is due mainly to increases of \$3.3 million in payments under the Emergency Gold Mining Assistance Act and of \$3.5 million in the expenditures of the Dominion Coal Board.

A table showing a comparative summary of expenditures for the fiscal years 1953-54 and 1952-53 follows:

TABLE XIX
MINES AND TECHNICAL SURVEYS EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Emergency Gold Mining Assistance.....	14.5	11.2	3.3
Dominion Coal Board.....	10.0	6.5	3.5
Surveys and Mapping including Air Surveys.....	7.1	6.5	0.6
Mines Branch.....	2.6	2.5	0.1
Geological Survey of Canada.....	2.0	1.8	0.2
Administration and general.....	1.3	1.2	0.1
	37.5	29.7	7.8

National Health and Welfare

Family allowance payments, because of their importance, have been dealt with in preceding paragraphs of the white paper. Other expenditures of the Department of National Health and Welfare are estimated at \$80.5 million for 1953-54 compared with \$72.4 million in 1952-53, an increase of \$8.1 million.

The following table presents a comparative summary of these other expenditures of the department for the last two fiscal years:

TABLE XX
NATIONAL HEALTH AND WELFARE EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
General health grants.....	28.9	27.3	1.6
Old age assistance.....	20.6	19.1	1.5
Allowances to blind persons.....	3.0	3.0	
Indians and Eskimos health services.....	14.9	12.9	2.0
Other health services.....	5.8	4.5	1.3
Civil defence programme.....	3.3	1.7	1.6
Administration and general.....	4.0	3.9	0.1
	80.5	72.4	8.1

General health grants were inaugurated in 1948-49 to assist the provinces in hospital construction, the improvement of general health services and the control of diseases. Expenditures on account of these services were \$28.9 million for 1953-54, an increase of \$1.6 million over 1952-53.

The following table presents a distribution by provinces of such grants paid in the last two fiscal years, together with the total paid from the inception of the policy in 1948-49.

TABLE XXI
GENERAL HEALTH GRANTS TO PROVINCES

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)	Total for Fiscal Years 1948-49 to 1953-54 Inclusive
	1954 (Estimated)	1953		
Newfoundland.....	0.9	0.8	0.1	3.8
Nova Scotia.....	1.3	1.3		5.8
Prince Edward Island.....	0.2	0.2		1.2
New Brunswick.....	1.3	1.1	0.2	5.1
Quebec.....	9.0	8.0	1.0	37.1
Ontario.....	7.8	8.3	—0.5	33.1
Manitoba.....	1.7	1.5	0.2	6.5
Saskatchewan.....	2.0	2.0		8.9
Alberta.....	2.2	2.1	0.1	9.1
British Columbia.....	2.5	2.0	0.5	11.1
Northwest and Yukon Territories.....	(1)	(1)		(1)
	28.9	27.3	1.6	121.7

(1) Less than \$50,000.

Under the Old Age Assistance Act the federal government reimburses the provinces by paying 50 per cent of the lesser of \$40 monthly or the amount of assistance given by the provinces in the form of monthly pensions to eligible persons in need who were in the age group of 65 to 69. (Under the Old Age Security Act, all persons 70 years and over who satisfy the residence requirements may receive a pension of \$40 per month from the federal government out of the Old Age Security Fund). Similarly, under the Blind Persons Act, the federal government reimburses the provinces for allowances paid to eligible blind persons in need over the age of 21, but under this Act federal reimbursement is 75 per cent of the total payments.

Payments by the federal government in respect of old age assistance were \$20.6 million for 1953-54 compared with \$19.1 million for 1952-53. Payments on account of allowances to blind persons were \$3 million for 1953-54, unchanged from 1952-53.

The distribution of these payments in 1953-54, by provinces, is given in the following table:

TABLE XXII
FEDERAL SHARE OF OLD AGE ASSISTANCE AND ALLOWANCES TO THE BLIND
FOR THE YEAR ENDED MARCH 31, 1954

(In millions of dollars)

	Old Age Assistance	Allowances to the Blind
Newfoundland.....	0.9	0.1
Nova Scotia.....	1.0	0.3
Prince Edward Island.....	0.1	(1)
New Brunswick.....	1.2	0.3
Quebec.....	7.2	1.1
Ontario.....	4.9	0.6
Manitoba.....	1.1	0.2
Saskatchewan.....	1.0	0.1
Alberta.....	1.2	0.1
British Columbia.....	2.0	0.2
Northwest and Yukon Territories.....	(1)	(1)
	20.6	3.0

(1) Less than \$50,000.

Indian and Eskimo health services were \$14.9 million for 1953-54 compared with \$12.9 million in 1952-53. Other health services totalled \$5.8 million, up \$1.3 million from the previous fiscal year. Of this increase, \$0.2 million was for immigration medical services, \$0.7 million for laboratory of hygiene and \$0.2 million for the administration of various Acts relating to health services.

Expenditures in connection with the civil defence programme were \$3.3 million for 1953-54, an increase of \$1.6 million.

Administration and general expenditures were \$4 million, slightly more than the total of \$3.9 million for 1952-53.

National Research Council and Atomic Energy Control Board

Expenditures of the National Research Council were \$15.6 million in 1953-54 compared with \$15.4 million in 1952-53. The expenditures of the Atomic Energy Control Board were \$12.6 million for 1953-54, a decrease of \$0.3 million from the previous fiscal year.

National Revenue

Expenditures of this department are estimated at \$50.1 million in 1953-54 compared with \$47.3 million in 1952-53. Of the increase of \$2.8 million for the year, \$1.5 million is in respect of the customs and excise division and \$1.3 million on account of the taxation division.

The following table presents a comparative summary of the expenditures of the department for the last two fiscal years:

TABLE XXIII

DEPARTMENT OF NATIONAL REVENUE EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Customs and excise division.....	27.0	25.5	1.5
Taxation division.....	23.0	21.7	1.3
Income tax appeal board.....	0.1	0.1	
	50.1	47.3	2.8

Northern Affairs and National Resources

The Department of Northern Affairs and National Resources was constituted in 1953-54 by an Act of Parliament which redefined the duties and functions of the former Department of Resources and Development to reflect the growing importance of Canada's northland. Expenditures under the Trans-Canada Highway Act, including administration and contributions to the provinces, and expenditures for housing, both included in 1952-53 under the Department of Resources and Development, have been transferred to the Department of Public Works and the expenditures for 1952-53 shown in the table which follows have been adjusted accordingly.

TABLE XXIV

NORTHERN AFFAIRS AND NATIONAL RESOURCES EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
National Parks Branch.....	7.3	7.2	0.1
Engineering and Water Resources Branch.....	1.8	3.1	-1.3
Northern Administration and Lands Branch.....	3.3	3.7	-0.4
Forestry Branch.....	5.0	3.8	1.2
Canadian Government Travel Bureau.....	1.5	1.3	0.2
Administration and general.....	0.6	0.4	0.2
	19.5	19.5	

Expenditures for 1953-54 at \$19.5 million were the same as those of 1952-53, a reduction of \$1.3 million in the engineering and water resources branch being offset by the increase of \$1.2 million in the forestry branch.

Post Office

Gross expenditures of the Post Office Department for 1953-54, including payments from revenue, are estimated at \$132.3 million, an increase of \$9.3 million over the total of \$123 million for 1952-53. Remuneration of postmasters and staffs at revenue and semi-staff offices and commissions at sub-offices are paid from revenue. These payments, which are included in the total of \$132.3 million for 1953-54, were \$18.3 million compared with \$17.4 million in 1952-53. Disbursements charged to budgetary expenditures are estimated at \$114 million in 1953-54, an increase of \$8.4 million over the previous fiscal year.

The following table presents a comparative summary of the expenditures for the past two years:

TABLE XXV
POST OFFICE DEPARTMENT EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Charged to Expenditures—			
Operations—including salaries and other expenses of staff post offices, district offices and railway mail services and supplies and equipment and other items for revenue post offices.....	65.3	60.7	4.6
Transportation—movement of mail by land, air and water.....	45.1	41.3	3.8
Financial services.....	2.4	2.3	0.1
Departmental administration and general.....	1.2	1.3	—0.1
	114.0	105.6	8.4
Charged to Revenues—			
Operations—salaries of postmasters and staffs at revenue and semi-staff offices, commissions paid at sub-offices and other disbursements.....	18.3	17.4	0.9
	132.3	123.0	9.3

Public Works

Expenditures of the Department of Public Works are estimated at \$114.5 million for 1953-54 an increase of \$16.6 million over 1952-53.

The following table presents a comparative summary of expenditures for 1953-54 and 1952-53:

TABLE XXVI
EXPENDITURES OF THE DEPARTMENT OF PUBLIC WORKS FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Architectural Branch.....	61.3	52.7	8.6
Engineering Branch.....	34.0	28.4	5.6
Contributions to the provinces under the terms of the Trans-Canada Highway Act.....	14.2	14.0	0.2
Housing.....	1.6	1.4	0.2
Administration and general.....	3.4	1.4	2.0
	114.5	97.9	16.6

Of the increase of \$8.6 million in the expenditures for the architectural branch, \$2.8 million is due to increased costs for maintenance of public buildings and \$5.7 million to increased outlay in the acquisition, construction and improvement of public buildings. Of the increase of \$5.6 million in the expenditures of the engineering branch, \$4.1 million is attributable to increased costs for the acquisition, construction and improvement of harbour and river works. Contributions to the provinces under the terms of the Trans-Canada Highway Act are estimated at \$14.2 million, an increase of \$0.2 million over 1952-53.

When the Department of Northern Affairs and National Resources was established, expenditures in connection with housing and the administration of the Trans-Canada Highway Act were transferred to the Department of Public Works. To facilitate comparison the foregoing table has been adjusted to include these expenditures which in 1952-53 were shown under the former Department of Resources and Development.

Royal Canadian Mounted Police

Expenditures for the Royal Canadian Mounted Police are estimated at \$34 million for 1953-54 compared with \$31.1 million in 1952-53. The increase of \$2.9 million is due chiefly to an increase of \$2.2 million in expenditures for land services of which \$1.9 million is in respect of operation and maintenance costs, and \$0.3 million for construction or acquisition of buildings. These amounts represent gross expenditures; payments received from the provinces for police services are credited to revenue.

The following table presents a comparative summary of expenditures for 1953-54 and 1952-53:

TABLE XXVII

ROYAL CANADIAN MOUNTED POLICE EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (-)
	1954 (Estimated)	1953	
Land services.....	29.6	27.4	2.2
Marine services.....	1.3	0.9	0.4
Aviation services.....	0.3	0.4	-0.1
Government contribution to the Royal Canadian Mounted Police pension account.....	0.7	0.5	0.2
Administration and general.....	2.1	1.9	0.2
	34.0	31.1	2.9

Trade and Commerce

Expenditures of the Department of Trade and Commerce for 1953-54 are estimated at \$16.7 million compared with \$16.5 million for 1952-53.

The following table presents a comparative summary of expenditures of the department for the two fiscal years:

TABLE XXVIII

EXPENDITURES OF THE DEPARTMENT OF TRADE AND COMMERCE FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Dominion Bureau of Statistics.....	5.4	5.7	—0.3
Canada Grain Act.....	4.7	4.5	0.2
Trade Commissioners Service.....	2.4	2.3	0.1
Standards Division.....	1.5	1.4	0.1
Administration and general.....	2.7	2.6	0.1
	16.7	16.5	0.2

Transport

Expenditures of the Department of Transport are estimated at \$120.2 million for 1953-54, an increase of \$16.3 million as shown in the following table:

TABLE XXIX

EXPENDITURES OF THE DEPARTMENT OF TRANSPORT FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Air Services—			
Telecommunications Division.....	13.9	12.7	1.2
Meteorological Division.....	7.0	6.6	0.4
Civil Aviation Division.....	21.2	19.5	1.7
Administration.....	0.2	0.2	
	42.3	39.0	3.3
Canal Services.....	9.5	9.9	—0.4
Marine Services.....	20.8	21.7	—0.9
Railway Services—			
Maritime Freight Rates Act—			
Difference between tariff and normal tolls.....	10.5	10.1	0.4
Other railway services.....	13.5	6.4	7.1
Maintenance of trackage.....	7.0	4.2	2.8
	31.0	20.7	10.3
Canadian Maritime Commission.....	4.3	4.0	0.3
Deficits and non-active advances—			
Government-owned enterprises—			
Net Income Deficits—			
Canadian National (West Indies) Steamships, Ltd.....	0.6	(¹)	0.6
North Sydney—Port aux Basques ferry and terminals.....	2.2	1.9	0.3
Prince Edward Island Car Ferry and terminals..	1.6	1.5	0.1
National Harbours Board.....		0.1	—0.1
Loans and Advances, non-active—			
National Harbours Board.....	4.3	1.9	2.4
	8.7	5.4	3.3
Departmental administration and sundry.....	3.6	3.2	0.4
	120.2	103.9	16.3

(¹) Less than \$50,000.

Estimated expenditures of \$42.3 million for air services in 1953-54 represent an increase of \$3.3 million over 1952-53. Of this increase \$1.2 million is attributable to the telecommunications division, \$0.4 million to the meteorological division and \$1.7 million to the civil aviation division. Expenditures for railway services are expected to show an increase of \$10.3 million, of which \$2.8 million relates to payments under the Railway Act to the Canadian National and Canadian Pacific Railways for the maintenance of trackage on the railways' transcontinental lines in certain areas of Northern Ontario, \$0.4 million for expenditures in connection with the Maritime Freight Rates Act and \$7.1 million for other railway services (due mainly to increases of \$3.4 million for transportation improvements and facilities with respect to the Strait of Canso and \$4.5 million for construction or acquisition of auto ferry vessels). Payments covering net operating deficits of and non-active loans and advances to certain government owned enterprises are estimated at \$8.7 million in 1953-54 an increase of \$3.3 million compared with \$5.4 million in 1952-53, due largely to an increase of \$2.4 million in non-active loans and advances to the National Harbours Board.

Veterans Affairs

Expenditures for the Department of Veterans Affairs are estimated at \$239.8 million for 1953-54 compared with the total of \$241.4 million spent in 1952-53. The net decrease of \$1.6 million is due primarily to decreases of \$1.3 million in post-discharge rehabilitation benefits, \$1.6 million in war service gratuities and re-establishment credits, and \$1.2 million in departmental, district and pensions administration and miscellaneous payments, offset in part by increases of \$2.1 million in expenditure for treatment services, \$0.7 million in pensions for disability or death, and \$0.6 million in the provision for the reserve for conditional benefits under the Soldier Settlement and Veterans Land Acts. Conditional grants are made to veterans who enter into agreements with the director for sales of land and chattels provided they fulfil the terms of the agreements for a period of ten years. The amount charged to expenditure in 1953-54 under this heading covers one-tenth of the conditional benefits included in sales to veterans prior to April 1954.

The following table presents a comparative summary of the expenditures for the past two fiscal years:

TABLE XXX
VETERANS AFFAIRS EXPENDITURES FOR THE FISCAL YEARS ENDED
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Fiscal Year Ended March 31		Increase or Decrease (—)
	1954 (Estimated)	1953	
Pensions for disability or death.....	127.7	127.0	0.7
Treatment services.....	42.8	40.7	2.1
War veterans' allowances and other benefits.....	30.3	30.8	-0.5
Post-discharge rehabilitation benefits.....	2.5	3.8	-1.3
War service gratuities and re-establishment credits.....	9.1	10.7	-1.6
Soldier Settlement and Veterans' Land Acts—			
Administration and general.....	5.3	5.7	-0.4
Provision for reserve for conditional benefits.....	8.6	8.0	0.6
Departmental, district and pensions administration and miscellaneous payments.....	13.5	14.7	-1.2
	239.8	241.4	-1.6

4. THE CASH POSITION

In addition to the collection of revenues and the making of expenditures in the strict budgetary sense the Government's financial operations include numerous extra-budgetary transactions which involve the receipt and disbursement of large sums of cash.

The estimated budgetary revenues, expenditures and surplus for 1953-54 have been described and analysed in some detail in the preceding sections. Although these budgetary transactions for 1953-54 resulted in a surplus of \$10.1 million, the unmatured funded debt outstanding in the hands of the public decreased by \$272.6 million, while the Government's cash balances increased by some \$120.2 million. It is apparent that both budgetary and non-budgetary transactions must be taken into account when measuring the impact of the Government's fiscal operations upon the Canadian economy or considering the implications of Government spending and the methods by which that spending is financed.

The non-budgetary transactions relate to transactions which result in increases or decreases in the Government's assets and liabilities. They do not appear in the Government's income account nor do they enter into the calculation of the annual budgetary surplus or deficit.

On the assets side they consist, for the most part, of advances to, and repayments of loans by, Crown Corporations and other Government agencies and funds (including the old age security fund), foreign, provincial and municipal governments and other borrowers, investments in government securities and outlays for the acquisition of inventories of materials and supplies which will be used in the future and for services rendered in one year but applicable to the accounts of subsequent years.

On the liabilities side the transactions relate primarily to receipts and payments in connection with the numerous deposit and trust, and annuity, insurance and pension funds held or administered by the Government.

The following summary shows how these non-budgetary transactions together with the budgetary surplus affected the Government's funded debt and cash position in 1953-54. For purposes of comparison, the corresponding figures for 1952-53 are also shown:

	Fiscal Year Ended March 31	
	1954 (Estimated)	1953
	(In millions of dollars)	
Non-BUDGETARY RECEIPTS AND CREDITS (excluding unmatured funded debt transactions)—		
Repayments of loans, investments and working capital advances—		
Loans to, and investments in, Canadian National Railways.....	163.8	
Advances to agricultural prices support account.....	49.8	-71.2
Advances to defence production revolving fund.....	17.1	-19.7
Advances to exchange fund.....	15.0	-45.0
Temporary loan to old age security fund.....	99.5	
1942 loan to United Kingdom.....	53.6	24.3
1946 loan to United Kingdom.....	14.6	14.3
Loans to other national governments.....	24.4	22.2
Loans to provincial and municipal governments.....	3.7	3.8
Other loans, investments and working capital advances.....	4.1	1.0
	445.6	-70.3
Net government annuities account receipts—		
Premium receipts less payments to beneficiaries.....	32.3	32.9
Government contribution to maintain reserve.....	1.0	0.7
Interest paid by Government.....	29.0	27.0
	62.3	60.6
Net insurance and pension account receipts—		
Employee contributions less payments to beneficiaries.....	16.8	17.6
Government contributions.....	89.8	45.0
Special Government provision for unamortized portion of public service superannuation account.....		25.0
Interest paid by Government.....	32.2	28.3
	138.8	115.9
Net increase in Colombo plan fund.....	13.1	19.9
Net increase in defence equipment and materiel replacement accounts..	53.4	85.1
Net increase in interest accrued on the public debt.....	12.2	25.9
Net increase in reserve for conditional benefits—Veterans Land Act....	8.6	8.0
Net increase in matured funded debt, outstanding cheques, interest due, etc.....	43.3	7.4
Net receipts in sundry other accounts.....	24.0	22.4
Total.....	811.3	274.9
Non-BUDGETARY DISBURSEMENTS AND CHARGES (excluding unmatured funded debt transactions)—		
Loans, investments and working capital advances—		
Loans to and investments in, Canadian National Railways.....	145.7	141.8
Loans to Central Mortgage and Housing Corporation.....	92.5	72.6
Temporary loan to old age security fund.....	44.8	99.5
Loans under Soldier Settlement and Veterans' Land Act.....	7.8	6.8
Other loans, investments and working capital advances.....	29.7	12.8
	320.5	333.5
Other non-budgetary expenditures—		
Cost of loan flotations (portion to be amortized).....	10.3	6.4
Net decrease in provincial 5 per cent corporation income tax suspense account.....	47.9	29.8
Net decrease in reserve for possible losses on ultimate realization of active assets.....	49.4	-75.0
Net decrease in cash balances of unemployment insurance fund....	0.4	0.6
Net disbursements from sundry accounts.....	0.1	8.3
	108.1	-29.9
Total.....	428.6	303.6
Net amount available from, or required for (—), non-budgetary transactions..	382.7	-28.7
Add, Budgetary surplus.....	10.1	23.5
Overall cash surplus available for debt reduction.....	392.8	
Overall cash deficit (—) required to be financed by borrowing.....		-5.2
Net increase or decrease (—) in unmatured funded debt outstanding in the hands of the public:		
Unmatured funded debt.....	-241.0	115.1
Sinking fund.....	-73.1	-1.7
Securities investment account.....	41.5	-0.6
	-272.6	112.8
Net increase in cash balances.....	120.2	107.6

As the table shows, in 1953-54 non-budgetary receipts and credits are estimated at \$811.3 million, while non-budgetary disbursements and charges are estimated at \$428.6 million, resulting in a net non-budgetary surplus of \$382.7 million which, when added to the budgetary surplus of \$10.1 million, made a total of \$392.8 million available for debt reduction. In 1952-53, as there was a net non-budgetary deficit of \$28.7 million and a budgetary surplus of \$23.5 million, \$5.2 million had to be financed by net new borrowing from the public.

Non-budgetary receipts and credits for 1953-54 are estimated at \$811.3 million. Repayments of loans, investments and working capital advances totalled \$445.6 million, due mainly to repayments of \$163.8 million by Canadian National Railways, a reduction of \$49.8 million in the advances to the agricultural prices support account, net repayments of \$17.1 million in advances to the defence production revolving fund, net repayments of \$15 million in advances to the exchange fund, a writing off against the general reserve of temporary loans of \$99.5 million made to the old age security fund in 1952-53, and repayments of \$92.6 million by the United Kingdom and other national governments. Other non-budgetary receipts and credits include \$62.3 million on government annuities account, \$138.8 million in respect of the several insurance and pension accounts, \$18.1 million net increase in Colombo plan fund, \$53.4 million representing increases in the defence equipment and materiel replacement accounts, and \$93.1 million receipts from various other accounts.

Non-budgetary disbursements and charges during 1953-54 are expected to total \$428.6 million. Loans, investments and working capital advances were \$320.5 million. These include \$145.7 million to Canadian National Railways for capital expenditures for additions and betterments and the acquisition of new rolling stock and equipment and for additional working capital (as mentioned in the preceding paragraph, during the year the Canadian National Railways also repaid loans aggregating \$163.8 million); \$92.5 million to Central Mortgage and Housing Corporation for housing construction and loans; \$44.8 million in temporary loans to the old age security fund to finance the amount by which pension payments from the fund exceeded tax receipts; and \$37.5 million for miscellaneous loans, investments and working capital advances (including \$7.8 million for loans to veterans). Other non-budgetary disbursements and charges are estimated at \$108.1 million, and include \$10.3 million for discounts and commissions on loans, \$47.9 million for the net decrease in the provincial 5 per cent corporation income tax suspense account \$46.9 million of which was transferred to budgetary revenues during the year, a net decrease of \$49.4 million in the reserve for possible losses on ultimate realization of active assets (the \$50 million provided for this reserve in budgetary expenditures is more than offset by a reduction due to the charge to the reserve of the 1952-53 temporary loan of \$99.5 million to the Old Age Security Fund), and \$0.5 million disbursements from various other accounts.

With an overall cash surplus of \$392.8 million in 1953-54, and unmatured funded debt outstanding in the hands of the public reduced by \$272.6 million, there was an estimated increase of \$120.2 million in cash balances at the end of the year.

5. ESTIMATED SUMMARY OF ASSETS AND LIABILITIES OF CANADA AT MARCH 31, 1954

The following table presents in summary form the estimated balances of the asset and liability accounts as at March 31, 1954, the comparable balances at March 31, 1953, and the estimated change in each category during 1953-54:

TABLE XXXI

SUMMARY OF THE STATEMENT OF THE ASSETS AND LIABILITIES OF CANADA AS AT
MARCH 31, 1954 AND MARCH 31, 1953

(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
LIABILITIES			
Floating debt.....	912.2	863.9	48.3
Deposit and trust accounts.....	205.0	183.1	21.9
Insurance, pension and guaranty accounts.....	1,767.8	1,567.1	200.7
Deferred credits.....	150.8	130.0	20.8
Sundry suspense accounts.....	358.6	352.0	6.6
Province debt accounts.....	11.9	11.9	.....
Unmatured funded debt.....	14,569.5	14,810.5	—241.0
	17,975.8	17,918.5	57.3
ACTIVE ASSETS			
Cash and other current assets.....	2,539.9	2,591.8	—51.9
Loans to, and investments in, Crown agencies.....	1,788.2	1,705.2	83.0
Other loans and investments.....	2,437.5	2,526.1	—88.6
Sinking fund and other investments held for the retirement of debt.....	100.7	27.6	73.1
Province debt accounts.....	2.3	2.3	.....
Deferred charges.....	260.0	249.7	10.3
Sundry suspense accounts.....	192.0	199.9	—7.9
Total Active Assets.....	7,320.6	7,302.6	18.0
Less, Reserve for possible losses on ultimate realization of active assets.....	496.4	545.8	—49.4
Net Active Assets.....	6,824.2	6,756.8	67.4
NET DEF* (Excess of liabilities over net active assets).....	11,151.6	11,161.7	—10.1

Liabilities

The aggregate liabilities of the Government as at March 31, 1954, are estimated at \$17,975.8 million, an increase of \$57.3 million over the total of \$17,918.5 million at the close of the previous fiscal year.

Unmatured funded debt outstanding, including bonds and treasury bills totalled \$14,569.5 million or approximately 81 per cent of all liabilities. Of the total outstanding unmatured funded debt, \$14,181.6 million or 97.3 per cent is payable in Canada; the balance of \$387.9 million is payable in foreign currencies—\$337.6 million in United States dollars and \$50.3 million in pounds sterling. A complete statement in tabular form of the Government's unmaturing funded debt as at March 31, 1954, with details of interest rates, dates of maturity, annual interest charges and amounts of principal outstanding for each loan may be found at the end of this Part.

The Government's liability in respect of insurance, pension and guaranty accounts is expected to total \$1,767·8 million at March 31, 1954. Floating debt, which includes outstanding cheques, matured funded debt and similar obligations payable on demand and accounts payable (cheques issued in April in payment of accounts relating to the fiscal year 1953-54) is estimated at \$912·2 million.

The other liability items are: sundry suspense accounts (where some uncertainty as to disposal exists), \$358·6 million; deposit and trust accounts (consisting of moneys deposited with or held by the Receiver General for various purposes), \$205 million; deferred credits (consisting of balances whose ultimate accounting treatment is known, but which are held until certain conditions are fulfilled), \$150·8 million and province debt accounts (representing settlements arising out of agreements at the time of Confederation), \$11·9 million.

Active Assets

Offsetting the liabilities, and to some extent explaining their existence—as a substantial part of the total debt is attributable to them—are the Government's active assets. For the most part these consist of assets which yield interest, profits or dividends, liquid assets such as cash and departmental working funds together with certain prepaid expenses and sundry suspense accounts.

It is estimated that at the end of the fiscal year the total active assets amounted to \$7,320·6 million, an increase of \$18 million over the total at the end of the previous fiscal year. The totals of the principal active asset categories as at March 31, 1954 were: cash and other current assets, \$2,539·9 million; loans to, and investments in, Crown agencies, \$1,788·2 million; other loans and investments (including loans to provincial, municipal and national governments, subscriptions to international organizations and advances to veterans and others), \$2,437·5 million; deferred charges, \$260 million; sundry suspense accounts, \$192 million; sinking fund and other investments held for the retirement of unmatured funded debt, \$100·7 million; and province debt accounts, \$2·3 million.

The reserve for possible losses on ultimate realization of active assets, which now stands at \$496·4 million is shown on the statement of assets and liabilities as a deduction from the total active assets, bringing the net active asset total to \$6,824·2 million.

A. CHANGES IN PRINCIPAL LIABILITY CLASSIFICATIONS DURING 1953-54

The gross liabilities of the Government at March 31, 1954, were \$57·3 million more than the total at the end of the previous fiscal year. A decrease of \$241 million in unmatured funded debt is more than offset by an overall increase of \$298·3 million for all other liability items, due largely to the increase of \$200·7 million in insurance, pension and guaranty accounts. Other increases are: \$48·3 million in floating debt, \$21·9 million in deposit and trust accounts, \$20·8 million in deferred credits and \$6·6 million in sundry suspense accounts.

Floating Debt

It is estimated that floating debt increased by \$48·3 million during the fiscal year. Increases of \$39·5 million in matured funded debt outstanding (due for the most part to the fact that some bonds of the March 1, 1954 maturity had not been redeemed at the year end), \$11·6 million in outstanding cheques and warrants and \$11·4 million in miscellaneous accounts payable are offset, in part, by decreases of \$13·5 million in notes and other obligations payable on demand and \$1·1 million in interest due and outstanding.

The estimated changes in floating debt during 1953-54 are shown in the following table:

TABLE XXXII
FLOATING DEBT AS AT MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
Matured funded debt outstanding.....	59.5	20.0	39.5
Notes and other obligations payable on demand.....	268.5	282.0	-13.5
Interest due and outstanding.....	56.0	57.1	-1.1
Outstanding cheques and warrants.....	242.4	230.8	11.6
Miscellaneous accounts payable.....	269.0	237.6	11.4
Post Office (net liability for money orders, etc.).....	16.8	16.4	0.4
	912.2	863.9	48.3

Deposit and Trust Accounts

Deposit and trust accounts increased by \$21.9 million during the fiscal year. The principal increase was \$18.1 million in the Colombo Plan Fund to which was credited \$30.4 million voted by Parliament to provide for assistance to countries in South and South-east Asia. Disbursements from the fund during 1953-54 amounted to \$12.3 million.

Insurance, Pension and Guaranty Accounts

The increase in insurance, pension and guaranty accounts is estimated to be \$200.7 million. The following table shows the changes in the various accounts for the fiscal year 1953-54:

TABLE XXXIII
INSURANCE, PENSION AND GUARANTY ACCOUNTS AS AT
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
Unemployment Insurance Fund.....	894.7	863.1	31.6
Less, Investment in bonds and accrued interest.....	883.1	851.1	32.0
	11.6	12.0	-0.4
Government Annuities.....	798.8	736.5	62.3
Permanent Services Pension Account.....	215.6	160.2	55.4
Superannuation Account.....	659.0	555.0	104.0
Other.....	82.8	103.4	-20.6
	1,767.8	1,567.1	200.7

The superannuation account increased by \$104 million during the fiscal year. This increase is attributable to several factors, the most important of which are the Government's contribution of \$38 million in respect of the additional liability created by the general salary increases to civil servants effective December 1, 1953; transfers of \$22.5 million from the retirement fund, and \$5.6 million from the National Harbours Board Pension Fund due to the coming into force of the Public Service Superannuation Act on January 1, 1954; the Government's contribution of \$16.5 million equal to the estimated current and

prior service payments of individuals in 1952-53; interest of \$22.2 million credited to the account; and the employees' current and prior service contributions, less payments from the fund.

The Government annuities account is expected to show an increase of \$62.3 million and the permanent services pension account an increase of \$55.4 million. The increase in the permanent services pension account represents the Government's contribution of \$35.3 million (which is made at the rate of one and two thirds times the current contributions and contributions for arrears), interest on the account amounting to \$6.6 million and contributions by permanent services personnel for current service and arrears, less the payments from the account.

Other insurance, pension and guaranty accounts show a decrease of \$21 million, which included the decrease of \$22.5 million in retirement fund transferred to the superannuation account.

Old Age Security Fund

Under the Old Age Security Act pensions of \$40 per month are paid to all eligible persons seventy years of age or over without a means test from the old age security fund. During the fiscal year payments from the fund totalled \$338.8 million and credits to the fund from the proceeds of the 2 per cent tax on personal incomes, the 2 per cent tax on corporation profits and the 2 per cent sales tax totalled \$294 million. The deficit of \$44.8 million resulting from these 1953-54 transactions was covered by a temporary loan from the Minister of Finance under the authority of section 11 of the Old Age Security Act.

During the three months' period in the fiscal year 1951-52 in which the Act was in operation, payments of pension from the fund amounted to \$76.1 million, receipts from taxes credited to the fund amounted to \$26.4 million and the deficit of \$49.7 million on the year's transactions was covered by moneys voted by Parliament in Vote 608 of Appropriation Act No. 2, 1952.

In 1952-53, payments of pension from the fund amounted to \$323.1 million and receipts from old age security taxes amounted to \$223.6 million, and the deficit of \$99.5 million for the year was covered by a temporary loan from the Minister of Finance. A large part of the 1952-53 deficit was because the special 2 per cent personal and corporate income taxes only started to be fully payable to the fund in July 1952. The authority of Parliament will be sought to write this amount off in 1953-54 to the reserve for possible losses on ultimate realization of active assets.

With the deficit of the old age security fund for 1951-52 covered by funds voted by Parliament and that for 1952-53 written off to the reserve for active assets, the balance of the temporary loan to the old age security fund at the close of the fiscal year is estimated at \$44.8 million, representing the deficit on the fund's operations in 1953-54.

The following table gives a summary of the transactions in the account for the last three years:

TABLE XXXIV

TRANSACTIONS IN THE OLD AGE SECURITY FUND FOR THE FISCAL YEARS ENDED
MARCH 31, 1952, 1953 AND 1954

(In millions of dollars)

	Fiscal Year Ended March 31		
	1954 (Estimated)	1953	1952 ⁽¹⁾
Pension Payments.....	338.8	323.1	76.1
Tax Receipts—			
2 per cent sales tax.....	147.7	141.5	24.3
2 per cent individual income tax.....	90.7	45.2	0.1
2 per cent corporation income tax.....	55.6 294.0	36.9 223.6	2.0 26.4
Excess of pension payments over tax receipts.....	44.8	99.5	49.7
Temporary loans from Minister of Finance to cover deficit for fiscal year.....	44.8	99.5	49.7
Carried forward from previous year.....	99.5		
Charged to Parliamentary appropriation.....			-49.7
Written off to active asset reserve.....	-99.5		
Outstanding at end of fiscal year.....	44.8	99.5	

(¹) The Act was in operation for only three months in 1951-52.

A distribution of old age security pension payments by provinces is given in the following table:

TABLE XXXV

OLD AGE SECURITY PAYMENTS BY PROVINCES FOR THE FISCAL YEAR ENDED MARCH 31, 1954

(In millions of dollars)

Newfoundland.....	7.2
Nova Scotia.....	17.7
Prince Edward Island.....	3.2
New Brunswick.....	12.6
Quebec.....	72.0
Ontario.....	125.8
Manitoba.....	20.0
Saskatchewan.....	20.1
Alberta.....	20.1
British Columbia.....	39.9
Northwest and Yukon Territories.....	0.2
	<u>338.8</u>

Deferred Credits

The increase in deferred credits is estimated to be \$20.8 million. Interest accrued on public debt shows an increase of \$12.2 million and balances receivable under agreements of sale of Crown assets, set up as a contra account to an account under the same name in other loans and investments, an increase of \$8.7 million.

Sundry Suspense Accounts

Sundry suspense accounts show an increase of \$6.6 million for the fiscal year. The transactions in the defence equipment replacement account reflect an increase of \$41.4 million in the undisbursed balance of the credits in the account which was established under section 3 of the Defence Appropriation Act, 1950, and subsequent votes of Parliament for the same purpose. Under the

terms of the Defence Appropriation Act, 1950, the value of defence materials and supplies transferred to members of the North Atlantic Treaty Organization may be credited to the account and these credits may be used in subsequent years to purchase equipment or supplies for the naval, army or air services of the Canadian Forces.

The replacement of materiel account established by section 11 of the National Defence Act is credited with amounts realized from the sale of materiel that has not been declared surplus to requirements but has been authorized by the Governor in Council to be sold to other countries and debited with disbursements representing amounts paid for the procurement of replacement materiel. The increase in the account during the fiscal year was \$12 million.

Also recorded under this heading was the amount held by the Government in respect of collections of the 5 per cent corporation income tax levied by the provinces that were party to a tax agreement with the Federal Government in the period 1947 to 1951. Under terms of collection agreements with the provinces, this tax was collected by the Federal Government and the proceeds thereof, when returns were finally assessed, were turned over to the provinces. The amount turned over to the provinces, (less any small amounts which represented collection of interest and penalties) was deducted from the stipulated tax rental payments and thus reduced the Federal expenditures shown on this account.

This arrangement was not continued under the new tax agreements signed for a further five years in 1952 and the provincial corporation income tax was not levied on profits earned after December 31, 1951. However, substantial amounts were collected after 1951 in respect of tax liability incurred during the five years when the tax was in force and towards the end of 1952-53 the account contained approximately \$92 million. Prior to 1952-53 amounts in this account, when turned over to the provinces, served to reduce Federal Government expenditures on account of tax rental payments but under the new agreements signed in 1952 the provinces gave up all rights in these collections remaining in the Suspense Account. Accordingly the amount in the account instead of being applied to the reduction of tax rental payments is to be taken into revenue. At the end of 1952-53 the amount of \$45 million was transferred from the account to revenue as "Special receipts and credits". As the assessments for the taxation years 1947 to 1951 are now almost all completed, the balance of \$46.9 million remaining in the account at the end of 1953-54 has been transferred to revenue as "Special receipts and credits" and the account closed out.

Province Debt Accounts

There were no changes in the province debt accounts during the fiscal year. The amounts have remained unchanged for many years.

Funded Debt Unmatured

The unmatured funded debt outstanding at the close of the fiscal year was \$14,569.5 million. The reduction of \$241 million reflects decreases of \$234.3 million in debt payable in Canada, \$2.6 million in the Canadian dollar equivalent of debt payable in London and \$4.1 million in the Canadian dollar equivalent of debt payable in New York. The details of the various loan redemptions, flotations and adjustments resulting in this net decrease are described more fully in the section on "The Public Debt".

B.—CHANGES IN THE PRINCIPAL ACTIVE ASSET CLASSIFICATIONS DURING 1953-54

It is estimated that the total of the active assets increased \$18 million during 1953-54. However, the reserve for possible losses on ultimate realization of active assets was reduced by \$49·5 million during the year, an additional provision of \$50 million for the reserve being offset by a charge of \$99·5 million, representing the amount of temporary loans made to the old age security fund in 1952-53, written off to the reserve in 1953-54. These changes have the effect of increasing the total of net active assets by \$67·4 million. Increases of \$83 million in loans to, and investments in, Crown agencies, \$73·1 million in sinking fund and other investments held for the retirement of debt and \$10·3 million in deferred charges are offset, in part, by decreases of \$88·6 million in other loans and investments, \$51·9 million in cash and other current assets and \$7·9 million in sundry suspense accounts.

Cash and Other Current Assets

It is estimated that there was a decrease of \$51·9 million in cash and other current assets in the fiscal year 1953-54. The changes in the various accounts in this category are summarized in the following table:

TABLE XXXVI

CASH AND OTHER CURRENT ASSETS AS AT MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
Cash in current and special deposits (including blocked currency of \$1·5 million at March 31, 1954 and \$2·1 million at March 31, 1953).....	376·3	255·8	120·5
Cash in hands of collectors and in transit.....	120·0	129·7	—9·7
Other liquid assets—			
Exchange fund account—Advances represented by cash and securities.....	1,763·8	1,770·8	—7·0
Securities investment account.....	18·0	59·5	—41·5
Working Capital Advances—			
Crown corporations.....	23·6	23·9	—0·3
Defence production revolving fund.....	85·0	102·1	—17·1
Temporary loan to old age security fund.....	44·8	99·5	—54·7
Departmental.....	46·9	96·0	—49·1
Miscellaneous departmental imprest and advance accounts.....	32·0	24·0	8·0
Other current assets.....	29·5	30·5	—1·0
	2,539·9	2,591·8	—51·9

The principal changes as shown in the table are increases of \$120·5 million in cash in current and special deposits and \$8 million in miscellaneous departmental imprest and advance accounts offset by an overall decrease of \$180·4 million for all other asset items, the chief of which are: temporary loan to the old age security fund \$54·7 million, departmental working capital advances \$49·1 million, securities investment account \$41·5 million, defence production revolving fund \$17·1 million, cash in hands of collectors and in transit, \$9·7 million and the exchange fund account \$7 million.

Advances to the exchange fund during the year are estimated at \$140 million, and repayments \$155 million leaving a net decrease in advances for the year of \$15 million which was reduced by \$8 million reflecting the decrease during

1953 in the fund's revaluation deficit which at December 31, 1953, was \$191.2 million compared with \$199.2 million at end of the preceding year thus showing a net change of \$7 million in the balance of the fund for the fiscal year.

The decrease of \$66.2 million in departmental working capital advances is accounted for by decreases of \$17.1 million in defence production revolving fund and \$49.8 million in agricultural prices support account, reflecting the credit to the account of \$37.8 million representing the estimated loss on operation for 1953-54, which is included in the year's expenditures and \$12 million, the net credit to the account from sales and purchases during the year by the Agricultural Prices Support Board.

It is proposed that the amount of \$99.5 million, the advances to the old age security fund representing the deficit of the fund for 1952-53, will be written off to the reserve for possible losses on ultimate realization of active assets and credited to the temporary loan to the old age security fund. The credit of \$99.5 million less the advances of \$44.8 million to the fund to cover the estimated deficit of the fund for 1953-54 will result in a credit in the temporary loan to the old age security fund for the year of \$54.7 million.

Loans to, and Investments in, Crown Agencies

It is estimated that loans to, and investments in, Crown agencies increased by \$83 million during the fiscal year. The more important changes are an increase of \$92.5 million in loans to Central Mortgage and Housing Corporation and a decrease of \$18.1 million in the loans and advances to the Canadian National Railways. The following table shows the changes in this category.

TABLE XXXVII
LOANS TO, AND INVESTMENTS IN, CROWN AGENCIES AS AT
MARCH 31, 1954 AND MARCH 31, 1953
(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
Atomic Energy of Canada, Limited.....	15.6	8.8	6.8
Bank of Canada—Capital Stock.....	5.9	5.9	.....
Canadian Broadcasting Corporation.....	16.0	11.3	4.7
Canadian Farm Loan Board.....	32.6	28.9	3.7
Canadian National Railways.....	1,027.4	1,045.5	—18.1
Central Mortgage and Housing Corporation—			
Capital Advances.....	25.0	25.0	.....
Loans.....	500.0	407.5	92.5
Defence Construction (1951) Limited.....	.....	2.8	—2.8
Eldorado Mining and Refining Limited.....	8.2	8.2	.....
Export Credits Insurance Corporation.....	5.0	5.0	.....
National Harbours Board.....	106.0	106.8	—0.8
Northwest Territories Power Commission.....	8.1	8.5	—0.4
Polymer Corporation Limited.....	34.0	37.0	—3.0
Other Crown Agencies.....	4.4	4.0	0.4
	1,733.2	1,705.2	83.0

Loans to Central Mortgage and Housing Corporation for the fiscal year were \$101 million, of which \$89 million is for lending purposes, \$2 million for construction and \$10 million for federal-provincial housing projects. Repayments of \$8.5 million bring the net increase in advances for the year to \$92.5 million.

In the fiscal year ended March 31, 1954, the Government advanced \$121 million to the Canadian National Railway Company for capital purposes, the retirement of funded debt in the hands of the public and to cover the operating deficit of the Company for the first three months of 1954. From the proceeds of a \$200 million twenty year 3½% bond issue sold to the public early in 1954, the Company repaid the Government \$147·8 million of advances for capital purposes. In addition, it repaid a temporary loan of \$16 million obtained during the early part of the calendar year, 1953, when the operations of the Railway were resulting temporarily in a deficit. As a consequence of all these transactions the advances to the Company were reduced by \$38·8 million during the fiscal year.

In addition, the Government purchased \$20·7 million of 4 per cent preferred stock of the Canadian National Railway Company in order to assist the Company to finance additional capital expenditures. This stock is issued under the authority of the Canadian National Railways Capital Revision Act, 1952, in an amount equal to three per cent of the gross revenues of the Company.

The advances to the National Harbours Board were reduced by \$0·8 million during 1953-54, bringing the amount outstanding to \$106 million at the close of the year. The balance represents all the outstanding advances in connection with harbour developments at Montreal and Vancouver, and a portion of those in respect of Three Rivers.

Polymer Corporation Limited, a Crown corporation engaged in the manufacture of synthetic rubber, reduced its indebtedness during the year by \$3 million.

Advances to the Canadian Farm Loan Board were \$32·6 million at the fiscal year-end, an increase of \$3·7 million over the total at March 31, 1953.

Other increases in loans to, and investments in, Crown agencies were \$6·8 million for Atomic Energy of Canada Limited, and \$4·7 million for Canadian Broadcasting Corporation.

Other Loans and Investments

It is estimated that other loans and investments decreased by \$88·6 million during the fiscal year. The following table shows the main accounts in this category together with the changes during the fiscal year:

TABLE XXXVIII
OTHER LOANS AND INVESTMENTS AS AT MARCH 31, 1954 AND MARCH 31, 1953.
(In millions of dollars)

	Balance at March 31		Increase or Decrease (—)
	1954 Estimated	1953	
Loans to United Kingdom and other governments.....	1,772·3	1,864·9	—92·6
Subscription to capital of International Monetary Fund.....	322·5	322·5	.....
Subscription to capital of International Bank for Recon- struction and Development.....	70·9	70·9	.....
Loans to provincial and municipal governments.....	83·5	87·2	—3·7
Advances under Soldier Settlement and Veterans' Land Acts.	161·9	162·7	—0·8
Miscellaneous loans and investments.....	26·4	17·9	8·5
	2,437·5	2,526·1	—88·6

The loans to the United Kingdom and other governments consist of loans to the Government of the United Kingdom under the authority of The War Appropriation (United Kingdom Financing) Act, 1942, and the United Kingdom Financial Agreement Act, 1946, loans to other governments under Part II of the Export Credits Insurance Act and miscellaneous foreign loans. The following table shows the changes in this category during the fiscal year:

TABLE XXXIX
LOANS TO UNITED KINGDOM AND OTHER GOVERNMENTS
(In millions of dollars)

	Balance at March 31		Increase or Decrease(—)
	1954 Estimated	1953	
Loans to United Kingdom—			
The War Appropriation (United Kingdom Financing) Act, 1942.....	142.5	196.1	—53.6
The United Kingdom Financial Agreement Act, 1946....	1,142.1	1,156.7	—14.6
	1,284.6	1,352.8	—68.2
Loans to Other Governments—			
The Export Credits Insurance Act, Part II.....	440.8	460.2	—19.4
Miscellaneous advances.....	46.9	51.9	—5.0
	487.7	512.1	—24.4
	1,772.3	1,864.9	—92.6

Under the terms of an agreement entered into on August 13, 1953, between the Governments of the United Kingdom and Canada, the Government of the United Kingdom agreed to reduce the unpaid balance of the \$700 million interest-free loan granted under the provisions of the War Appropriation (United Kingdom Financing) Act, 1942, which then amounted to \$188.6 million, to \$150 million and to repay the balance by quarterly instalments of \$7.5 million payable on March 1, June 1, September 1 and December 1 in each year, the first instalment to be paid on March 1, 1954, and the final instalment on December 1, 1958. Under the agreement the loan is to continue to be free of interest until December, 1958.

During the fiscal year 1953-54, the Government of the United Kingdom repaid \$53.6 million of this loan reducing the balance outstanding at March 31, 1954 to \$142.5 million.

In addition, the Government of the United Kingdom repaid \$14.6 million on account of the \$1,185 million loan made under the United Kingdom Financial Agreement Act, 1946, reducing the balance outstanding at the fiscal year end to \$1,142.1 million.

Outstanding advances made under authority of Part II of the Export Credits Insurance Act are estimated at \$440.8 million, at March 31, 1954, a decrease of \$19.4 million for the fiscal year. Advances under this Act represent loans made to certain foreign countries to assist them in purchasing goods and services in Canada. Miscellaneous advances to national governments show a decrease of \$5 million, of which \$3.6 million is due to the repayment by the Government of the Union of Soviet Socialist Republics of advances made under authority of section 3 of the War Expenditure and Demobilization Appropriation Act, chap. 37, 1945 (2nd Sess.).

A summary of the outstanding advances under Part II of the Export Credits Insurance Act is given in the following table:

TABLE XL
ADVANCES TO FOREIGN GOVERNMENTS UNDER PART II OF THE EXPORT CREDITS INSURANCE ACT
(In millions of dollars)

	Total Outstanding at March 31 1953	Repayments during 1953-54	Total Outstanding at March 31 1954
Belgium.....	55.4	2.3	53.1
China.....	49.4		49.4
Czechoslovakia.....	9.9		9.9
France.....	209.2	8.4	200.8
Indonesia.....	7.7	1.5	6.2
Netherlands.....	110.2	4.6	105.6
Norway.....	18.4	2.6	15.8
	460.2	19.4	440.8

All payments falling due during the fiscal year 1953-54 have been received in accordance with the agreements entered into by the Governments of the various countries and the Government of Canada with the exception of payments owing by the Governments of China and Czechoslovakia.

Miscellaneous loans and investments increased by an estimated \$8.5 million during the year. Included in this category are the balances receivable under agreements of sale of Crown assets which show an estimated increase of \$8.1 million, of which \$8.0 million is the balance due by A. V. Roe Canada Limited from a sale to that Company of Crown assets. (A contra account to these balances receivable under agreements of sale of Crown assets is included in deferred credits).

Sinking Fund and Other Investments held for the Retirement of Unmatured Funded Debt

There was an increase of \$73.1 million in these assets during the fiscal year, due mainly to the purchase of \$75 million 3 per cent Government of Canada New York Loan 1948-63 bonds having a value in Canadian dollars of \$72.7 million

Deferred Charges

Deferred charges increased by \$10.3 million during the fiscal year, reflecting a net increase of \$10.3 million in unamortized discounts and commissions on loans, due to the payment of \$29.5 million for discounts and commissions on new loans offset by the annual amortization charges of \$19.2 million on past loans applicable to and included in the expenditure for 1953-54.

Sundry Suspense Accounts

The decrease of \$7.9 million in sundry suspense accounts is due to the fact that the deficit arising from the exchange revaluations in respect of the assets and liabilities of the exchange fund account was \$191.2 million at December 31, 1953, compared with \$199.2 million at the close of the previous year.

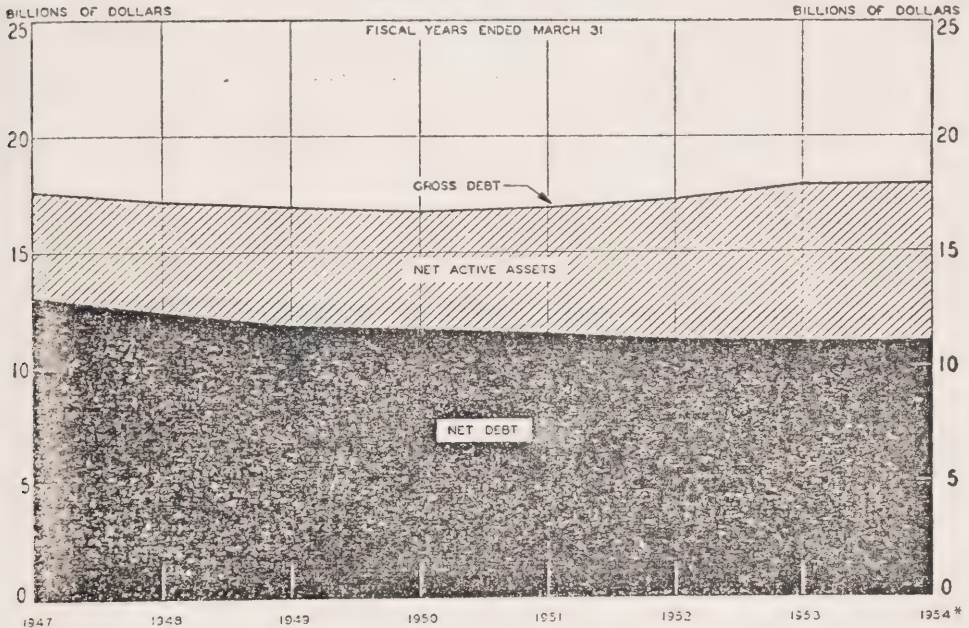
Reserve for Possible Losses on Ultimate Realization of Active Assets

The sum of \$50 million was added to the reserve for possible losses on the ultimate realization of active assets with a corresponding amount shown as an expenditure during the year and \$99.5 million was written off the reserve in respect of the temporary loan to the old age security fund in 1952-53 resulting in a decrease of \$49.5 million in the account for the year. The balance of the reserve as at March 31, 1954, is estimated at \$496.4 million.

C. DECREASE IN NET DEBT

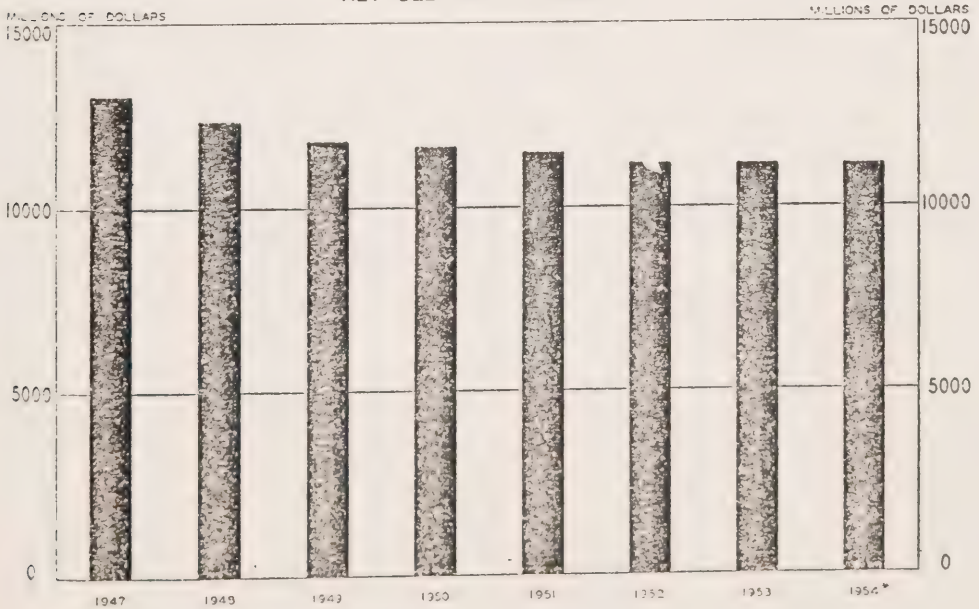
The estimated surplus of \$10.1 million for the fiscal year resulted in a corresponding decrease in the net debt of Canada, reducing it from \$11,161.7 million at March 31, 1953, to \$11,151.6 million at March 31, 1954.

GROSS AND NET DEBT



*Estimated.

NET DEBT AS AT MARCH 31



*Estimated.

6. THE PUBLIC DEBT

Gross and Net Debt

The unmatured funded debt of Canada decreased by \$241 million during the fiscal year but this decrease was more than offset by an increase of \$298.3 million in other liabilities—principally in insurance, pension and guaranty, floating debt, sundry suspense and deposit and trust accounts—with the result that the gross public debt of Canada increased by \$57.3 million from \$17,918.5 million at March 31, 1953, to an estimated total of \$17,975.8 million at March 31, 1954. During the same period the net active assets increased by \$67.4 million with the result that the net debt—which is the gross debt less the active or revenue producing assets—was reduced by \$10.1 million.

The following table shows the relationship between the gross public debt, the unmatured funded debt and the net debt as at March 31, 1947, to March 31, 1954, inclusive, together with the amount of decrease in net debt.

TABLE XLI

STATEMENT OF PUBLIC DEBT, UNMATURED FUNDED DEBT, ACTIVE ASSETS AND NET DEBT OF CANADA
AS AT MARCH 31, 1947 TO 1954 INCLUSIVE

(In millions of dollars)

As at March 31	Gross Public Debt			Less Active Assets	Net Debt	Decrease in Net Debt During Fiscal Year
	Unmatured Funded Debt	Other Liabilities	Total			
1947.....	16,541.9	1,156.3	17,698.2	4,650.4	13,047.8	373.6
1948.....	15,957.4	1,239.9	17,197.3	4,825.7	12,371.6	676.1
1949.....	15,585.0	1,365.4	16,950.4	5,174.3	11,776.1	595.5
1950.....	15,185.1	1,562.7	16,750.8	5,106.1	11,644.6	131.5
1951.....	15,026.8	1,896.5	16,923.3	5,490.0	11,433.3	211.3
1952.....	14,693.4	2,562.3	17,257.7	6,072.4	11,185.3	248.0
1953.....	14,810.5	3,108.0	17,918.5	6,756.8	11,161.7	23.5
1954 (Estimated).....	14,569.5	3,406.3	17,975.8	6,824.2	11,151.6	10.1

Unmatured Funded Debt

It is estimated that the unmatured funded debt of Canada totalled \$14,569.5 million at March 31, 1954. This is \$241 million less than at the close of the previous fiscal year, and \$1,972.4 million less than at March 31, 1947. Interest charges on the unmatured funded debt amounted to \$412.3 million in 1953-54, a decrease of approximately 7 per cent from the total of \$444.1 million in 1946-47. However, as the gross national product rose from \$12,026 million in 1946 to \$24,260 million in 1953 an increase of over 100 per cent, the relative burden of the funded debt, measured in terms of interest charges as a percentage of the gross national product, actually decreased from 3.7 per cent in 1946-47 to 1.7 per cent in 1953-54.

Summary of Security Issues and Redemptions during the year

During the fiscal year 1953-54 the Government issued securities payable in Canadian dollars in the principal amount of \$3,150 million (excluding the refunding of treasury bills which mature periodically) and redeemed maturity issues in the amount of \$3,386.1 million of which \$3,384.3 million was payable in Canadian dollars and \$1.8 million in sterling.

The financing of these redemptions was effected as follows:

(in millions of dollars)	
By proceeds of new issues:	
Canada Savings Bonds Series S (net).....	\$60
Twenty-five Year Loan.....	40
Increase in Treasury Bills.....	50
	<hr/>
	950.0
By refunding or conversion into new issues.....	2,200.0
By available cash—	
Payable in Canada.....	234.3
Payable in London.....	1.8
	<hr/>
	236.1
	<hr/>
	3,386.1
	<hr/>

As a result of these transactions the net decrease in funded debt is estimated at \$236.1 million.

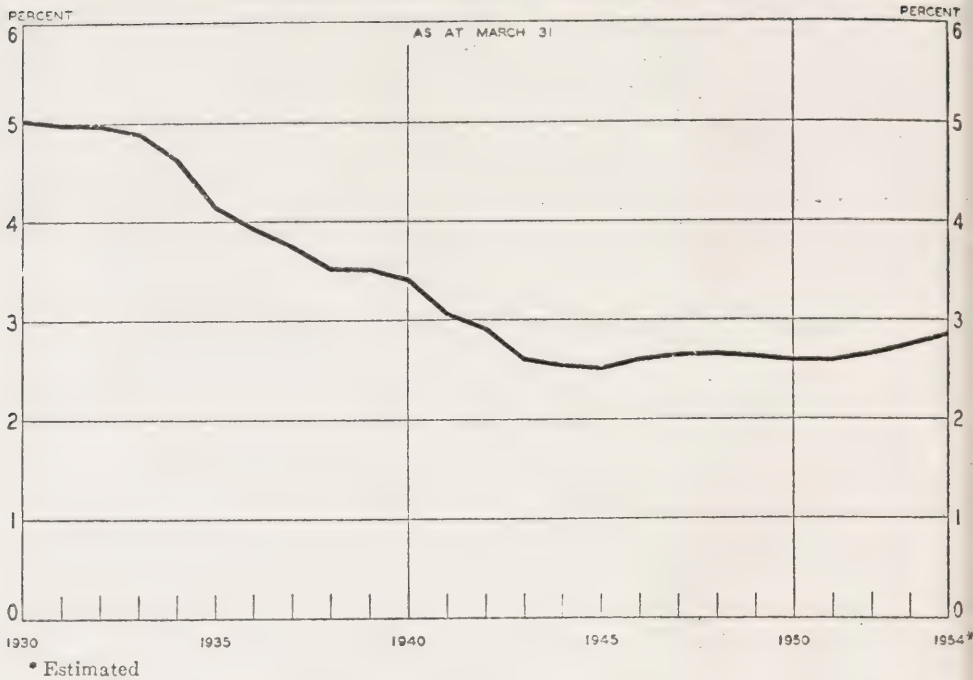
The Canadian dollar value of the Government's unmatured external funded debt is estimated to have decreased by \$6.7 million during the fiscal year. Of this amount \$4.1 million is in respect of indebtedness payable in United States dollars and \$2.6 million in respect of sterling debt. Apart from the redemption of \$1.8 million of 4% Registered Stock payable in sterling referred to above, the reduction resulted from revaluation of liabilities payable in sterling and United States dollars consequent upon the change in the exchange rates as compared with the previous fiscal year end.

As unmatured funded debt payable in Canada decreased by \$234.3 million and as debt payable in sterling and United States dollars decreased by \$6.7 million, the net decrease during the year in unmatured funded debt was \$241 million.

Average interest rates on unmatured funded debt

The average coupon rate of the Government's outstanding funded debt at the close of the fiscal year was 2.86 per cent compared with 2.77 per cent at the close of the previous fiscal year.

AVERAGE INTEREST RATE ON FUNDED DEBT



Further details of redemptions and new issues of securities during the fiscal year are set out in the following tables:

TABLE XLII
REDEMPTION OF FUNDED DEBT DURING FISCAL YEAR ENDED MARCH 31, 1954.

Maturity Date	Interest Rate	Where Payable	Amount
	%		\$
May 1, 1953.....	1½	Canada	200,000,000
May 15, 1953, Deposit Certificates.....	1½	Canada	200,000,000
September 1, 1953.....	2	Canada	550,000,000
November 1, 1953.....	2	Canada	200,000,000
November 1, 1953.....	2	Canada	200,000,000
November 1, 1953.....	2	Canada	300,000,000
March 1, 1954.....	2½	Canada	550,000,000
March 1, 1954.....	3	Canada	676,355,489
September 1, 1958, Registered Stock.....	4	London	1,764,770
War Savings Certificates.....	3	Canada	36,283,540
Canada Savings Bonds, Series 1-7.....	2½-3½	Canada	471,748,100
Total Redemption of Debt.....			3,386,151,899

TABLE XLIII
NEW SECURITY ISSUES DURING FISCAL YEAR ENDED MARCH 31, 1954

—	Issue Date	Maturity Date	Interest Rate	Price to Government	Yield at Price to Government	Total Amount Issued	Renewals or Reconversion Amount Issued	Amount Issued for Cash
			%		%	\$	\$	\$
<i>Issued to Bank of Canada—</i>								
Six Months Treasury Notes.....	May 1, 1953	Nov. 1, 1953	2	100.00	2.00	200,000,000	200,000,000	.....
Six Months Treasury Notes.....	Sept. 1, 1953	Mar. 1, 1954	2½	100.00	2.25	550,000,000	550,000,000	.....
Six Months Treasury Notes.....	Nov. 1, 1953	May 1, 1954	2½	100.00	2.25	200,000,000	200,000,000	.....
Six Months Treasury Notes.....	Mar. 1, 1954	Sept. 1, 1954	2	100.00	2.00	550,000,000	550,000,000	.....
						1,500,000,000	1,500,000,000	.....
<i>Issued to General Public—</i>								
Loan One Year Eight Months.....	Nov. 1, 1953	July 1, 1955	2½	98.00	3.49	400,000,000	400,000,000	.....
Loan Four Years Six Months.....	Nov. 1, 1953	May 1, 1958	2½	97.15	3.69	300,000,000	300,000,000	.....
Twenty-Five Year Loan.....	Jan. 15, 1953	Jan. 15, 1978	3½	97.50	3.91	40,000,000	.....	40,000,000
Canada Savings Bonds Series VIII Net	Nov. 1, 1953	Nov. 1, 1965	3½	98.875	Various	850,000,000	.....	850,000,000
Increase in Treasury Bills.....	Various	Various	Various	Various	Various	50,000,000	.....	50,000,000
						1,650,000,000	700,000,000	950,000,000
GRAND TOTAL.....						3,150,000,000	2,200,000,000	950,000,000

Contingent Liabilities

In addition to the direct debt set out in the statement of assets and liabilities, the Government has certain contingent liabilities. These consist of securities issued by various Government owned enterprises (such as the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Saint John Harbour Commission), guaranteed as to principal and interest or as to interest only, and a number of other miscellaneous guarantees, the chief of which are the guarantee of deposits maintained by the chartered banks in the Bank of Canada and of bank advances to the Canadian Wheat Board; the guarantees of certain loans made by chartered banks to veterans or farmers for certain authorized purposes; guarantees under The Export Credits Insurance Act and certain commitments under the housing legislation.

The following tables give details of the bonds and debenture stocks guaranteed by the Government, and also indicate the nature and approximate extent of the Government's other guarantees and contingent liabilities. The most significant change during the fiscal year was the sale of \$200,000,000 3½ per cent guaranteed bonds of the Canadian National Railway Company. The proceeds were applied to the redemption of \$50,000,000 5 per cent Bonds due February 1, 1954 and to the repayment of interest-bearing capital advances from the Government of Canada.

TABLE XLIV

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE GOVERNMENT AS AT MARCH 31, 1954

Date of Maturity	Issue	Interest Rate	Estimated Amount Outstanding
		%	\$
May 1, 1954.....	City of Saint John Debentures assumed by Saint John Harbour Commissioners.....	5½	3,329
Mar. 1, 1955.....	Canadian National (West Indies) Steamships Limited..	5	9,400,000
June 15, 1955.....	Canadian National.....	4½	48,496,000
Feb. 1, 1956.....	Canadian National.....	4½	67,368,000
July 1, 1957.....	Canadian National.....	4½	64,136,000
July 20, 1958.....	Canadian Northern.....	3½	5,636,506
Jan. 15, 1959.....	Canadian National.....	3	35,000,000
May 4, 1960.....	Canadian Northern Alberta.....	3½	550,727
May 19, 1961.....	Canadian Northern Ontario.....	3½	3,597,518
Jan. 1, 1962.....	Grand Trunk Pacific.....	3	26,465,130
Jan. 1, 1962.....	Grand Trunk Pacific.....	4	7,999,074
Jan. 3, 1966.....	Canadian National.....	3	35,000,000
Jan. 2, 1967.....	Canadian National.....	2½	50,000,000
Sept. 15, 1969.....	Canadian National.....	2½	70,000,000
Jan. 16, 1971.....	Canadian National.....	2½	20,000,000
Feb. 1, 1974.....	Canadian National.....	3½	200,000,000
June 15, 1975.....	Canadian National.....	2½	6,000,000
Perpetual.....	Grand Trunk Debenture Stock.....	5	696,493
Perpetual.....	Great Western Debenture Stock.....	5	223,331
Perpetual.....	Grand Trunk Debenture Stock.....	4	2,603,579
Perpetual.....	Northern Railway of Canada Debenture Stock.....	4	8,254
			673,383,941

TABLE XLV

OTHER OUTSTANDING GUARANTEES AND CONTINGENT LIABILITIES

	Estimated Amount Outstanding
Deposits maintained by the chartered banks in the Bank of Canada (February 27, 1954).....	\$ 676,629,369
Bank advances re Province of Manitoba Savings Office (February 22, 1954).....	2,540,078
Province of Manitoba Treasury Bill (March 31, 1954).....	1,000,000
Loans made by chartered banks under the Farm Improvement Loans Act (January 31, 1954).....	31,460,019
Loans made by chartered banks under the Veterans' Business and Professional Loans Act (December 31, 1953).....	2,092,918
Guarantees under Part II of the Export Credits Insurance Act (March 31, 1954).....	8,925,000
Loans made by approved lending institutions under Dominion and National Housing Acts (December 31, 1953).....	Indeterminate
Guarantees of land assembly projects under National Housing Act (December 31, 1953).....	543,286
Loans made by approved lending institutions under Part IV of the National Housing Act, 1944, for home extensions or improvements (December 31, 1953).....	7,214
Loans made by chartered banks under The Prairie Producers' Interim Financing Act, 1951 (January 31, 1954).....	29,034
Loans made by chartered banks to Canadian Wheat Board (February 27, 1954).....	69,117,693

7. SUPPLEMENTARY DETAILED TABLES

REVENUES

EXPENDITURES

LOANS AND ADVANCES AND INVESTMENTS

UNMATURED FUNDED DEBT

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(thousands of dollars)

	1949-50	1950-51	1951-52	1952-53	Estimated 1953-54
	\$	\$	\$	\$	\$
TAX REVENUE—					
Direct Taxes—					
Direct taxes on incomes—					
Individual income tax.....	621,982	652,329	975,776	1,225,276	1,280,000
<i>Less</i> old age security tax transferred to old age security fund.....			-100	-45,250	-90,700
Tax on interest, dividends, rents and royalties going abroad.....	47,475	61,610	55,017	53,674	54,000
Corporation income tax.....	603,193	799,197	1,132,650	1,276,940	1,249,000
<i>Less</i> old age security tax transferred to old age security fund..			-2,000	-36,850	-55,600
Excess profits tax.....	-1,788	10,141	2,365		
Total direct taxes on incomes...	1,270,862	1,523,277	2,163,733	2,473,790	2,436,700
Succession duties.....	29,920	33,599	38,208	38,071	40,000
Total Direct Taxes.....	1,300,782	1,556,876	2,201,946	2,511,861	2,476,700
Indirect Taxes—					
Customs import duties.....	225,878	295,722	346,365	389,442	408,000
Excise duties—					
Spirits, malt and beer.....	107,035	129,390	120,851	127,684	133,000
Cigarettes, tobacco and cigars....	115,982	114,486	100,711	116,914	98,000
Licenses.....	38	38	36	38	38
<i>Less</i> refunds.....	-2,490	-2,868	-3,658	-3,276	-3,038
Total Excise Duties.....	220,565	241,046	217,940	241,360	228,000
Excise taxes—					
Sales tax.....	415,222	470,627	611,492	725,398	759,700
<i>Less</i> old age security tax transferred to old age security fund..			-24,298	-141,558	-147,700
Automobiles, tires and tubes.....	38,193	70,841	100,904	89,883	101,000
Beverages (soft drinks).....	1,627	7,212	19,230	12,481	12,000
Candy and chewing gum.....	1,030	10,850	11,531	12,391	12,800
Cigarette papers and tubes.....	7,223	7,734	423		
Cigarettes, tobacco and cigars....	83,497	85,199	106,354	102,645	110,000
Electrical appliances.....		2,080	4,893	4,305	5,000
Furs.....	2,937	4,509	4,793	5,710	4,000
Jewellery, watches, ornaments, etc.....	4,077	6,459	9,714	7,488	7,500
Matches and lighters.....	1,091	1,161	1,855	1,394	1,300
Stamps on cheques, money orders etc.....	9,898	10,945	11,346	10,561	
Stoves, washing machines and refrigerators.....			10,923	1,546	
Television sets, radios, tubes and phonographs.....	3,101	5,548	8,252	10,706	12,500
Toilet preparations.....	4,316	4,551	8,467	7,195	7,000
Transportation and communication	3,967				
Trunks, bags, luggage etc.....	2,237	2,604	3,960	3,603	3,500
Wines.....	2,126	2,225	2,167	2,216	2,290
Sundry commodities.....	2,310	4,327	7,173	5,964	6,700
Licenses, interest and miscellaneous	370	372	463	461	500
<i>Less</i> refunds (mainly sales-tax)....	-11,785	-10,506	-13,723	-20,499	-20,000
Total Excise Taxes.....	571,457	686,763	885,928	841,890	882,000
Other Taxes—					
Chartered bank note circulation....	121				
Insurance premiums.....	3,789	4,228	4,753	12,361	13,600
Miscellaneous.....	525	710	843	679	700
Total Indirect Taxes.....	1,022,335	1,228,474	1,455,829	1,485,732	1,532,300
Total Revenue from Taxes.....	2,323,117	2,785,350	3,657,775	3,997,593	4,009,000

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—*Concluded*
(thousands of dollars)

	1949-50	1950-51	1951-52	1952-53	Estimated 1953-54
	\$	\$	\$	\$	\$
TAX REVENUE—<i>Concluded</i>					
NON-TAX REVENUE—					
Post Office.....	84,512	90,443	104,610	111,905	111,500
Return on investments.....	91,529	89,529	117,622	116,906	147,500
Bullion and coinage.....	4,523	4,708	4,838	4,386	4,800
Premium, discount and exchange.....		17,562	17,697	1,467	3,900
Other.....	25,035	31,106	37,205	45,471	49,700
Total Non-Tax Revenue.....	205,599	233,348	281,972	280,135	317,400
Total Ordinary Revenue.....	2,528,716	3,018,698	3,939,747	4,277,728	4,326,400
SPECIAL RECEIPTS AND CREDITS—					
Sale of surplus Crown assets.....	16,351	19,612	14,712	7,638	7,866
Central Mortgage and Housing Corporation—					
Profits paid to Receiver General....	4,241	2,862	3,144	2,054	(¹)
Proceeds and depreciation reserve with respect to the sale of wartime housing properties.....	2,535	4,351	9,843	6,701	5,235
Refundable portion of income tax and excess profits tax—Transfer to revenue of excess reserves set up in previous years.....		25,000	7,367		
Transfer to revenue of provincial 5 per cent corporation income tax suspense account pursuant to the 1952 tax rental agreements.....				45,000	46,900
Sale of Crown assets under agreements of sale.....					9,204
Payment received from the Government of the Union of Soviet Socialist Republics in settlement of equipment and material delivered under mutual aid after September 2, 1945.....					2,807
Transfer to revenue of Canadian Wheat Board suspense account.....				6,325	
Surplus of Canadian Arsenals, Limited.....				6,114	(¹)
Write-up to active assets—Atomic Energy of Canada, Limited—Capital stock.....				4,794	
Miscellaneous special receipts.....	28,298	42,012	6,096	4,469	1,674
Total Special Receipts and Credits...	51,425	93,838	41,162	83,095	73,686
TOTAL REVENUE.....	2,580,141	3,112,536	3,980,909	4,360,823	4,400,086

(¹) Included in Return on Investments.

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS

(thousands of dollars)

	1940-50	1950-51	1951-52	1952-53	Estimated 1953-54
	\$	\$	\$	\$	\$
Agriculture—					
Administration and general.....	644	692	733	824	868
Science service.....	5,684	6,685	6,992	8,136	8,967
Experimental farms service.....	5,810	7,140	7,729	8,272	8,693
Production service.....	8,771	9,182	9,335	9,337	9,671
Marketing service.....	4,387	4,936	4,555	4,780	4,412
Rehabilitation and reclamation projects	8,846	13,212	11,813	13,852	14,850
Freight assistance on western feed grains.....	16,764	15,638	14,999	20,661	17,000
Premium on hog carcasses suitable for export to United Kingdom.....	4,982	5,100	5,374	6,405	4,925
Advances to prairie farm emergency fund.....	13,138	4,304			
Payment to Canadian Wheat Board for distribution to producers.....		65,600			
Net operating loss—Agricultural prices support account.....	3,473	3,485	1,743	32,533	37,759
Other expenditure.....	2,548	7,411	3,861	1,911	2,111
	75,047	142,785	67,134	106,711	109,236
Auditor General's Office.....	562	574	601	576	618
Canadian Broadcasting Corporation....	2,772	2,405	8,301	8,235	8,304
Payment from the consolidated revenue fund of amounts equal to taxes collected under the Excise Tax Act in respect of radio and television sets and equipment.....					16,500 24,804 5,508
Office of the Chief Electoral Officer....	4,456	278	368	465	
Citizenship and Immigration—					
Administration and general.....	376	531	1,114	1,399	1,717
Immigration branch.....	4,937	5,578	8,073	7,063	7,533
Indian Affairs branch.....	12,368	14,564	14,054	15,184	16,643
	17,701	20,673	23,241	23,646	25,895
Civil Service Commission.....	1,513	1,580	1,692	1,910	2,080
Defence Production—					
Administration and general.....			8,284	9,733	10,375
Capital assistance to defence industry.....			22,695	79,079	39,500
			30,979	88,817	49,875
External Affairs.....	7,050	7,654	8,225	9,146	10,464
Membership in commonwealth and international organizations.....	2,671	2,962	2,724	3,477	3,533
Assistance to other countries and inter- national organizations.....	6,959	11,461	26,634	26,628	31,459
	16,580	22,080	37,583	59,251	45,447
Finance—					
Departmental administration and gen- eral.....	5,448	7,354	8,361	9,385	9,468
Office of the Comptroller of the Treasury.....	11,140	11,345	12,554	13,310	13,805
Interest on public debt.....	439,816	425,217	432,423	451,340	476,665
Additional amount required to place interest on public debt on accrual basis.....			87,510		
Cost of issuing new loans and annual amortization of bond discounts and commissions.....	10,546	13,354	10,717	13,072	19,033
Servicing of public debt.....	478	449	385	508	612
Subsidies to provinces.....	19,170	18,735	20,108	20,108	20,108
Compensation to provinces—					
Tax rental agreements, 1947 Act....	76,881	94,123	96,868	23,795	1
Tax rental agreements, 1952 Act.....				284,778	309,227
Transfer of certain public utility tax receipts, sec. 7, 1947 tax rental agreements act.....	1,375	4,565	3,732	4,370	4,000
Transitional grant to Newfoundland.	6,500	6,500	6,500	5,650	4,800
Government contributions with respect to the superannuation account—general	5,461	6,831	12,911	13,802	16,450
—special.....		75,000	98,000	25,000	38,000

STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Continued*

(thousands of dollars)

	1949-50	1950-51	1951-52	1952-53	Estimated 1953-54
	\$	\$	\$	\$	\$
<i>Finance—Concluded</i>					
Grants to universities.....			6,993	5,115	5,244
Implementation of guarantees (Ming Sung Industrial Co. Ltd.).....			1,346	1,695	1,563
Premium discount, and exchange.....	19,740				
Wartime Prices and Trade Board Administration.....	2,567	1,599	155		
Commodity prices stabilization corpora- tion limited.....			50		307
Advances for payment of drawback claims to millers and other manu- facturers of wheat products.....	400				
Grant <i>re</i> Red River Valley flood.....		12,500			
Provision for reserve for possible losses on ultimate realization of active assets.....	75,000	75,000	75,000	75,000	50,000
Assumption of part of Newfoundland debt under terms of union.....	62,293				
Write-down from active to non-active assets—					
Trading losses in securities invest- ment account.....	8,299			40	
Soybean flour suspense account.....	126				
	745,240	752,572	873,613	946,983	969,232
	7,586	8,964	8,733	10,777	9,425
<i>Fisheries.....</i>					
Governor General and Lieutenant Gov- ernors.....	274	244	275	397	399
Insurance.....	311	369	403	449	438
Justice.....	4,268	4,609	5,103	5,606	5,936
Office of the Commissioner of Peniten- taries.....	6,691	7,798	8,936	9,303	9,256
	10,959	12,407	14,039	14,909	15,192
<i>Labour.....</i>	9,770	9,030	9,503	10,088	9,539
Government annuities—amount re- quired to maintain reserve.....	1,256	660	940	744	1,000
Unemployment Insurance Act 1940— Administration and general.....	24,033	26,805	23,919	25,051	26,273
Government contribution.....	21,084	26,133	29,940	31,139	31,894
	66,143	62,628	64,302	67,022	68,706
<i>Legislation—</i>					
House of Commons.....	3,765	3,332	4,302	4,528	4,094
Library of Parliament.....	127	137	153	231	295
Senate.....	1,178	976	1,227	1,103	999
General.....	159	266	263	295	270
	5,229	4,711	5,945	6,157	5,653
<i>Mines and Technical Surveys.....</i>	9,839	10,442	10,779	12,027	12,980
Dominion Coal Board.....	4,357	3,561	5,132	6,484	10,018
Emergency gold mining assistance....	13,716	7,114	11,841	11,147	14,500
Write-down from active to non-active assets—					
Abasand Oils Limited.....	1,802				
	29,714	21,117	27,732	29,658	37,493
<i>National Defence—</i>					
General.....	383	901	277	295	316
Defence forces, army, navy and air services.....	348,050	545,738	1,217,579	1,557,660	1,434,009
Mutual aid to NATO countries.....		195,417	126,416	235,053	309,232
Defence research and development....	22,389	23,415	35,394	42,989	43,763
<i>Pensions—</i>					
Payments under defence services pension act.....	5,011	5,011	5,096	5,110	5,101
Government contribution to permanent services pension account.....	9,046	11,975	30,712	30,009	35,252
Contribution towards military costs of NATO.....				11,302	12,000
	334,879	782,457	1,415,474	1,882,418	1,839,673
	2,123	2,308	2,602	2,920	2,998
<i>National Film Board.....</i>	16,901	17,344	21,098	22,935	27,918
<i>National Health and Welfare.....</i>	15,716	18,875	24,322	27,333	28,964
General health grants.....					
Family allowances.....	297,514	309,465	320,458	334,193	350,142

[STATEMENT OF EXPENDITURES BY DEPARTMENTS AND MAJOR CATEGORIES
FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(thousands of dollars)

	1949-50	1950-51	1951-52	1952-53	Estimated 1953-54
	\$	\$	\$	\$	\$
National Health and Welfare— <i>Concluded</i>					
Old age pensions including pensions to blind persons.....	93,189	103,169	80,206		
Old age assistance and blind persons allowances.....			2,999	22,099	23,555
Deficit—Old age security fund	29,520	49,555	49,669	406,555	450,579
National Research Council and Atomic Energy Control Board.....	16,170	18,014	25,080	28,343	28,245
National Revenue including taxation division.....	47,832	46,056	45,768	47,313	50,092
Northern Affairs and National Resources	22,605	20,764	17,423	19,500	19,488
Post Office.....	82,640	91,781	97,973	105,553	114,078
Privy Council including Prime Minister's Office.....	4,248	4,362	4,097	3,767	3,754
Public Archives.....	198	206	251	307	357
Public Printing and Stationery.....	866	706	1,103	1,607	2,035
Public Works.....	67,599	74,458	79,060	83,996	100,362
Trans-Canada highway contributions.....	67,599	81,683	91,852	97,859	114,540
Royal Canadian Mounted Police.....	15,971	19,801	27,341	31,141	33,992
Secretary of State.....	1,600	2,035	2,389	2,201	3,292
Trade and Commerce.....	25,761	23,443	21,817	16,503	16,688
Deficits incurred by the Canadian Wheat Board covering operations for government account.....	4,471	2,536			
Deficit—Trans-Canada Air Lines....	4,818	1,325	21,817	16,503	16,688
Transport—					
Administration and general.....	3,808	2,528	3,179	7,495	10,490
Canals service.....	6,198	8,290	7,991	9,889	9,434
Marine service.....	17,537	17,187	17,465	21,679	20,812
Railway service.....	4,488	1,951	2,306	6,414	13,458
Maritime freight rates act.....	6,982	8,475	10,030	10,130	10,538
Air services.....	34,115	33,553	36,298	39,011	42,382
Canadian Maritime Commission.....	2,277	5,899	4,461	3,984	4,827
Deficits—					
Canadian National Railways.....	42,043	3,261	15,032		
Canadian National (West Indies) Steamships Limited.....	461	1,029	467	4	650
Prince Edward Island car ferry and terminals.....	1,221	1,267	1,365	1,520	1,603
North Sydney—Port aux Basques.. ferry and terminals.....				1,846	2,236
National Harbours Board.....	83	188	55	57	
Non-active assets—					
National Harbours Board.....	4,236	1,465	1,252	1,877	4,257
Veterans Affairs—	123,449	85,123	99,901	103,906	120,187
Administration and general.....	3,550	2,355	2,513	3,627	2,274
Pensions.....	96,091	95,577	103,703	127,053	127,654
Treatment and after-care of returned soldiers and allowances to dependents.....	69,507	71,646	76,097	78,541	80,175
Hospital accommodation, additions, alterations and improvements.....	3,511	3,008	3,758	3,990	4,213
Post discharge rehabilitation benefits	25,099	13,502	6,594	3,790	2,518
War service gratuities and re-establishment credits.....	22,641	16,868	9,826	10,737	9,106
Soldier settlement and veterans land acts.....	7,383	6,282	5,922	5,629	5,342
Provision for reserve for conditional benefits under veterans land act....	6,496	7,110	7,600	8,042	8,570
Write-down of assets—					
Soldier settlement and veterans land acts loans.....	11,500	14	13	16	7
	246,578	216,592	216,026	241,425	239,869
TOTAL EXPENDITURE.....	2,448,615	2,901,242	3,732,875	4,337,276	4,389,979

ANNUAL CHANGES IN ACTIVE LOANS AND INVESTMENTS FOR THE LAST
FIVE FISCAL YEARS

(In thousands of dollars)

	FISCAL YEAR ENDED MARCH 31				
	1950	1951	1952	1953	Estimated 1954
	\$	\$	\$	\$	\$
WORKING CAPITAL ADVANCES TO CROWN CORPORATIONS					
Canadian Arsenal, Ltd.....		2,506			
Canadian Commercial Corporation.....			6,500		
Canadian Patents and Development, Ltd.....	296		Cr. 296		
Commodity Prices Stabilization Cor- poration.....	Cr. 3,000	Cr. 1,500	Cr. 50		Cr. 307
Crown Assets Disposal Corporation.....	Cr. 1,183		Cr. 45		
	Cr. 3,887	1,000	6,109		Cr. 307
LOANS TO, AND INVESTMENTS IN, CROWN AGENCIES					
Central Mortgage and Housing Corpora- tion—					
Loans.....	91,460	79,389	73,624	72,561	92,465
Canadian Broadcasting Corporation.....	4,500	650	850	2,000	4,750
Canadian Farm Loan Board.....	1,950	1,900	1,300	1,600	3,700
National Harbours Board.....	20,382	1,004	227	Cr. 127	Cr. 763
Canadian National Railways.....	Cr. 20,963	19,888	139,993	141,822	Cr. 18,092
Other Crown Agencies.....	Cr. 1,295	Cr. 540	Cr. 542	14,614	951
	96,034	102,291	215,457	232,470	83,011
OTHER LOANS AND INVESTMENTS					
Provincial and Municipal Governments.....	Cr. 4,031	Cr. 3,150	Cr. 4,129	Cr. 3,782	Cr. 3,774
United Kingdom and Other Govern- ments—					
United Kingdom—Loan under the War Appropriation (U.K. Financing) Act, 1942.....	Cr. 9,936	Cr. 40,567	Cr. 31,092	Cr. 24,282	Cr. 53,616
United Kingdom Financial Agreement Act, 1946—Loan.....	120,000	20,000	Cr. 14,010	Cr. 14,290	Cr. 14,576
Export Credits Insurance Act.....	Cr. 10,964	Cr. 22,935	Cr. 20,657	Cr. 20,599	Cr. 19,438
Other.....	5,541	144	5,461	Cr. 1,602	Cr. 5,002
Canada's subscription to capital of—					
International Monetary Fund.....	22,500				
International Bank for Reconstruction and Development.....	5,658		170		
Miscellaneous—					
Loans to veterans under the Soldier Settlement and Veterans' Land Acts. Balances receivable under agreements of sale of Crown Assets.....	796	7,515	1,521	Cr. 1,259	Cr. 793
Other miscellaneous loans.....	Cr. 2,839	Cr. 1,043	Cr. 936	900	8,304
	Cr. 812	Cr. 54	2,957	Cr. 256	300
	125,863	Cr. 40,120	Cr. 60,715	Cr. 65,170	Cr. 88,595
Sinking Fund and Other Investments held for retirement of unmatured funded debt.....		5,499	3,201	1,722	73,085
Net Total of Changes in Loans and Investments.....	218,010	68,670	164,052	169,022	67,194

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1954 AND THE ANNUAL INTEREST PAYABLE THEREON

Date of Maturity	Rate per cent	Where Payable	Amount of Loan		Annual Interest Charge	
			\$	cts.	\$	cts.
1954, May 1.....	2½	Canada	200,000,000	00	4,500,000	00
September 1.....	2½	Canada	550,000,000	00	11,000,000	00
July 1.....	2	Canada	100,000,000	00	2,000,000	00
December 15.....	2	Canada	395,000,000	00	7,900,000	00
December 15.....	2	Canada	150,000,000	00	3,000,000	00
1955, July 1.....	2½	Canada	200,000,000	00	4,500,000	00
July 1.....	2½	Canada	400,000,000	00	9,000,000	00
1956, July 1.....	2½	Canada	400,000,000	00	9,000,000	00
November 1.....	3	Canada	(¹) 855,607,410	50	25,414,081	50
November 1.....	2½	Canada	* 98,000,000	00	2,695,000	00
1957, May 1.....	3	Canada	1,111,261,650	00	33,337,849	50
November 1.....	2½	Canada	* 52,000,000	00	1,430,000	00
1958, May 1.....	3	Canada	300,000,000	00	9,000,000	00
June 1.....	3	Canada	88,200,000	00	2,646,000	00
November 1.....	2½	Canada	* 48,000,000	00	1,320,000	00
1959, January 1.....	3	Canada	1,197,324,750	00	35,919,742	50
November 1.....	2½	Canada	* 70,000,000	00	1,925,000	00
1960, June 1.....	3	Canada	1,165,300,350	00	34,959,010	50
November 1.....	2½	Canada	* 65,000,000	00	1,787,500	00
1961, January 15.....	3½	New York	(²) 46,560,000	00	1,513,200	00
1962, February 1.....	3	Canada	1,315,639,200	00	39,469,176	00
August 1.....	3½	Canada	* 164,000,000	00	5,740,000	00
1963, July 1.....	3½	London	(³) 1,921,837	74	62,459	73
July 1.....	3	London	(³) 48,408,153	14	1,452,244	65
August 1.....	3	New York	(²) 145,500,000	00	4,365,000	00
August 1.....	3½	Canada	* 199,000,000	00	7,462,500	00
October 1.....	3	Canada	1,295,819,350	00	38,874,580	50
1965, November 1.....	3½	Canada	* 860,000,000	00	32,250,000	00
1966, June 1.....	3½	Canada	54,793,000	00	1,777,847	50
September 1.....	3	Canada	1,691,796,700	00	50,753,901	00
1968, June 15.....	2½	Canada	350,000,000	00	9,625,000	00
1974, September 1.....	2½	New York	(²) 97,000,000	00	2,667,500	00
1975, September 15.....	2½	New York	(²) 48,500,000	00	1,333,750	00
1978, January 15.....	3½	Canada	100,000,000	00	3,750,000	00
Perpetuals.....	3	Canada	55,000,000	00	1,650,000	00
Various, three months treasury bills.....	(⁴) 1.709	Canada	455,000,000	00	7,775,350	00
Various, nine months treasury bills.....	(⁴) 2.289	Canada	195,000,000	00	4,463,550	00
			14,569,542,403	38	416,320,843	38
Payable in Canada.....			14,181,652,410	50	401,926,689	00
Payable in London.....			50,329,992	88	1,514,704	33
Payable in New York.....			337,560,000	00	9,879,450	00
			14,569,542,403	38	416,320,843	38

* Estimated.

(¹) Redeemable at 101 per cent. Amount outstanding includes \$8,471,360.50 redemption bonus.

(²) Conversion rate estimated at \$0.97 U.S. to the dollar Canadian.

(³) Conversion rate estimated at \$2.72 to the pound sterling.

(⁴) Estimated average effective rate of discount.

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